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From "China Inc." to "CCP Inc.": A new paradigm for Chinese state capitalism

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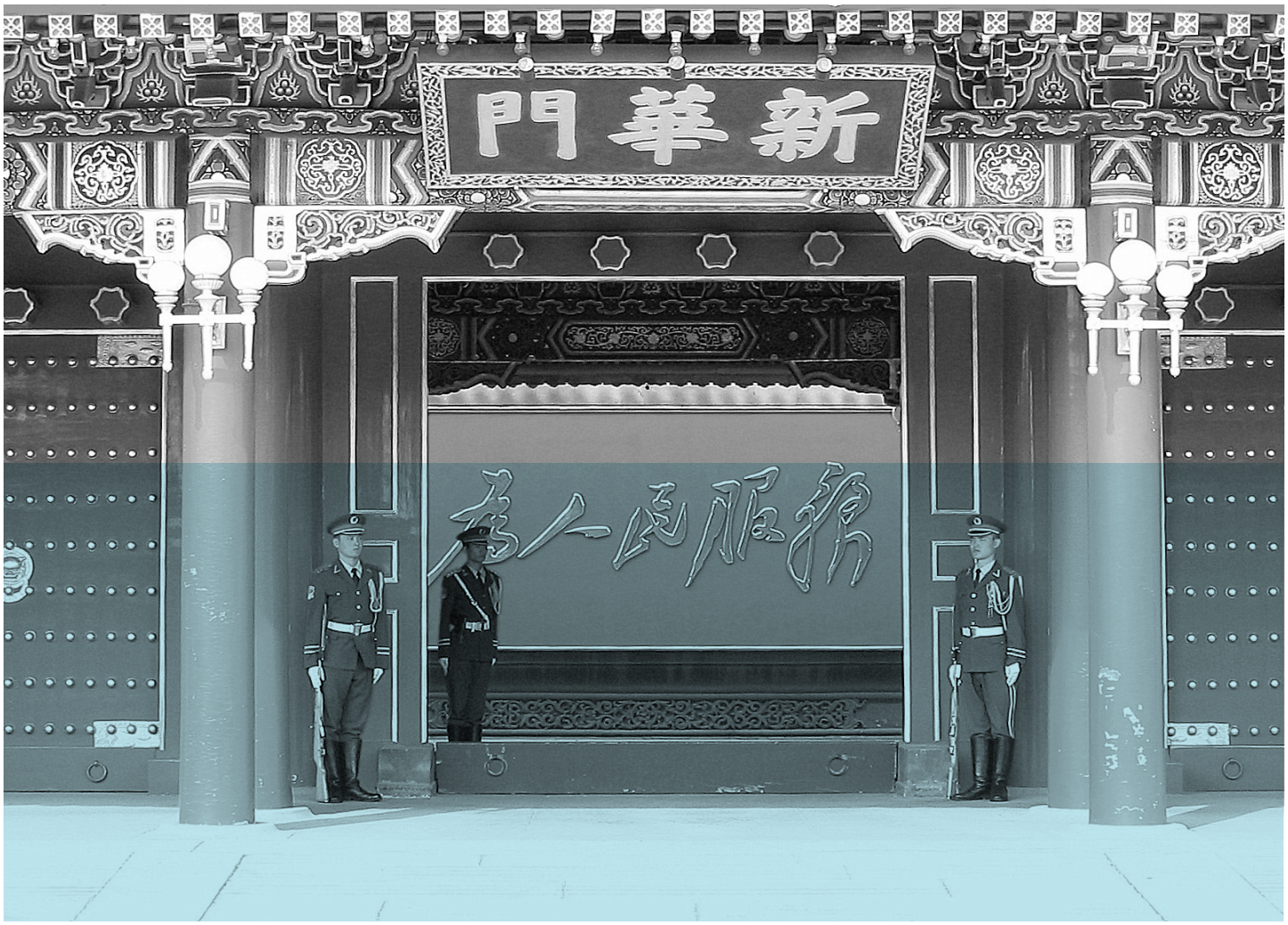

This paper was originally published on the China Leadership Monitor website and is part of a larger and ongoing stream of research at the Center for Strategic and International Studies (CSIS) to map China's state-capitalist system.

Important new reforms have drastically expanded the reach of the Chinese state into the economy and Chinese firms.

Chinese Communist Party (CCP) General Secretary Xi Jinping has overseen a significant transformation of China's domestic economic system, undergirded by important new reforms that have drastically expanded the reach of the Chinese state into the economy and Chinese firms. This has included the integration of CCP organizations into public and private firms, the regulatory shift of the State-owned Assets Supervision and Administration Commission of the State Council (SASAC) from "managing enterprises" to "managing capital," and the role of government guidance funds in driving industrial policy. The overall change in China's economic and regulatory structure – and the political control wielded by the CCP – combined with the Xi era blending of the public and private, and market and planning, is of such a proportion that it marks a new paradigm in China's development trajectory.

Aside from Deng Xiaoping, no other modern Chinese leader has placed as much emphasis on improving the overall resiliency of the systems and institutions that underpin national power as has Xi Jinping. In addition, Xi, even more than Deng, has expended significant effort to construct a system to balance the evolving economic realities of global integration with the foundational political imperatives of keeping the CCP in power.

The effects – both intended and otherwise – of Xi's nearly decade-long campaign to reforge the CCP's governing capacity and capabilities have been profound, ranging from the unprecedented campaign of repression in the Xinjiang Uyghur Autonomous Region to the expansion of the Party's de facto and de jure authority over the State Council (i.e., the government).

But perhaps one of the most far-reaching evolutions to have occurred on Xi's watch is the extended reach and power of the country's global state capitalist system, or what some have dubbed "China Inc."[1] Much of the attention on China Inc. was initially focused on the growing international footprint of Chinese firms – both private and state-owned – via strategic projects such as the Belt and Road Initiative, while less attention was given to Xi's impact on domestic regulatory policy and the political underpinnings of China's global reach. Yet since Xi's accession in late 2012, and picking up speed in 2015-16, important changes to the political, regulatory, and financial architecture that underpin China's state capitalist system have been so pronounced that it is time to replace the existing "China Inc." framework (which itself was plagued by shifting definitions) in favor of a new name, which I call CCP Inc.[2]

If China Inc. was comprised of mostly state-owned giants, the new CCP Inc. ecosystem is a dizzying mix of public, private, and hybrid-ownership firms.

If "China Inc." is widely understood to represent a core group of Chinese "national champions" working in concert with planners in Beijing to dominate the global upstream "commanding heights," CCP Inc. describes something more akin to an ecosystem than a formal, coordinated network, and one that operates up and down the entire value chain – from rare earths to fintech. While there are degrees of state-guided intentionality in the ecosystem, there are also a proliferating number of firms pursing their own independent objectives, some of which diverge or even clash with Beijing's objectives. If China Inc. was comprised of mostly state-owned giants, the new CCP Inc. ecosystem is a dizzying mix of public, private, and hybrid-ownership firms. If the power of China Inc. was fueled by explicit state subsidies, during the Xi-era, firms are utilizing an expanded toolkit, from global

equity and debt markets to a new and more market-based approach to industrial policy in order to bolster their global operations.

It is difficult (if not impossible) to delineate with any precision where CCP influence ends and where firm autonomy begins.

But perhaps most importantly, if China Inc. was typified by relatively clear demarcations between "state-owned" and private, in the new era those lines are obscured to the point of irrelevancy by a concerted effort to expand the role of the CCP throughout the economy, both public and private. Indeed, even after recognizing the limitations of Beijing's influence over many company decisions, there remains the almost impossible task of delineating with any precision where CCP influence ends and where firm autonomy begins. Such are the blurred lines that now predominate.[4] This new fully integrated – or blurred – understanding of public-private was recently articulated by the State-owned Assets Supervision and Administration Commission of the State Council (SASAC) Party Chair Hao Peng, who said in an interview, "Regardless of whether state-owned or private enterprises, they are all Chinese enterprises. [We] will firmly promote the upstream and downstream integration of firms of various ownership structures, the integration of large, medium, and small, and the coordinated and innovative development of various market entities to jointly build a group of world-class enterprises."[5]

This recent shift also seems to mark the CCP's full embrace of its hybrid political market economy, wherein overall political guidance and control is nested within a complex system of industrial planning/guidance and market mechanisms. Rather than seeing "markets" and "planning" as standing on opposite sides of a spectrum, the Xi administration has forged a system that seeks to render obsolete the previous conceptual taxonomy. As *The Economist* summarizes in a recent insightful piece, "[Xi's] idea is for state-owned companies to get more market discipline and private enterprises to get more party discipline, the better to achieve China's great collective mission."[6]

This piece explores key underlying elements of this new state capitalist paradigm. It begins with a brief historical description of how China's state capitalist system evolved in the lead-up to the country's 2001 accession to the WTO, then proceeds to unpack recent regulatory and policy shifts under the Xi administration.

From "grasp the big" to China Inc.

In 1992 paramount leader Deng Xiaoping declared "no more debate" on China's reform agenda.

While a popular narrative for China's post-Mao economic reforms describes a linear transition from a command economy to a market economy, in truth, vocal ideological debates and political struggles over the proper size and even legitimacy of the market were a constant feature in policy making and intellectual circles throughout the 1980s. The intensity of these disagreements was considered so disruptive to the CCP's modernization efforts that in 1992 paramount leader Deng Xiaoping declared "no more debate" on China's reform agenda, essentially freezing "conservatives" (i.e., economic leftists) out of policy-making circles for most of the 1990s. Also in 1992, at the Fourteenth Party Congress, the CCP enshrined Deng's reformist vision into the official ideology by declaring China a "socialist market economy." Although the move was seen by many external observers as a capitulation to the post-Cold War triumph of global capitalism, in fact it was a watershed for the future development of Beijing's blended approach to political control by the CCP, state-ownership over the "commanding heights," and a more market-tolerant approach to commercial entities.

Several events are worth highlighting. The first is China's move to restructure firms, both state-owned and private, into corporations, a development that would become a central feature of today's CCP Inc. system. The 1993 Company Law (公

司法) introduced elements of modern corporate governance, including the idea of limited liability and transferable shares. While this was widely heralded by foreign observers as a further signal that Beijing was intent on reforming China's economy and state assets in order to converge with other market economies, this corporatization of state-assets resulted in the formation of hundreds of business groups, including roughly 100 business groups that would receive government subsidies and protection. These firms were later called the "national team" (国家队).

"Grasp the big, release the small."

After several years of experimentation, in 1999 the CCP Central Committee formalized a state-owned enterprise (SOE) restructuring plan to "grasp the big, release the small" (抓大放小), spearheaded by "reformist" Premier Zhu Rongji. As Chang-Tai Hsieh and Zheng Song have written, "By grasp, the central committee meant that large state-owned firms were to be merged into large industrial conglomerates, and the control over these conglomerates was to be consolidated by the central government or by local governments."[7] Central to this was the desire to boost the productivity and profitability of these companies by "corporatizing" state assets, with the Party-state remaining the ultimate owner of the firm, even as shares of the company were offered for limited public sale.

Beijing created conglomerates with corporate structures of dizzying complexity and opacity that would soon span the globe.

The results of these "grasp/release" reforms were extraordinary, both in terms of long-term consequences for the structure and orientation of China's economy but also in terms of the social implications for the tens of millions of Chinese workers who experienced the sudden and unceremonious smashing of their "iron rice bowls," as thousands of smaller SOEs were stripped of their assets and sold-off, often to the managers of the firms themselves, and often for bargain-basement prices.[8] By focusing support ("grasping") on a few hundred central SOEs operating in strategically significant industries and the upstream "commanding heights," including steel, energy, banking, and telecommunications, Beijing ensured that a powerful and large state sector would remain a permanent feature of China's political economy (indeed, as is required in the PRC Constitution). Furthermore, in organizing SOEs into corporatized business groups, Beijing created conglomerates with corporate structures of dizzying complexity and opacity that would soon span the globe.

Looking for models (and not finding them)

Of course, Beijing did not take these steps in a vacuum, and beginning in the late 1970s, the CCP began looking for models that could combine the demonstrated ability to produce economic growth with political stability and control. Two systems, in particular, served as guideposts: South Korea's chaebol and Japan's keiretsu. As economist Arthur Kroeber has written, "For Chinese policymakers, the keiretsu and chaebol models were broadly attractive because of the way in which they facilitated organization of complex economic activity at a large scale." This, as Kroeber notes, allowed Beijing to envision a way to "consolidate production in bigger units."[9] In other words, to achieve scale. However, there were important differences between these two manifestations of East Asian state capitalism and China's evolving model. The chaebol system was built around family networks, which the CCP had systematically gutted after the final takeover of China in 1949. With the keiretsu, a company bank stood at the center of the conglomerate; in contrast, Beijing was weary of ceding control of financial resources to partially independent entities, and thus, while state-owned groups would contain their own financing arms, lending for the entire SOE system would still be controlled by the big state-owned commercial banks. Another

important difference, described in more detail below, is the deeply embedded role of the ruling party (in this case, the CCP), a feature absent from the Korean and Japanese state capitalist systems.

The city-state of Singapore offered CCP leaders yet another positive example of how to pursue prosperity without ceding political control, and indeed, while maintaining the dominance of a single political party.[10] Of particular note for China's economic planners was the country's sovereign wealth fund, Temasek, which presented a path to high returns on assets while ensuring strategic direction.[11] In fact, with the creation of the SASAC in 2003, Beijing sought to create a manager of state assets that could mimic the success of its Singaporean cousin.[12]

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Coinciding with Premier Zhu Rongji's SOE restructuring plan was Beijing's effort to promote overseas investments by Chinese companies. Seeking to avoid domestic inflation, Beijing decided the best use of these accumulating FX reserves was to deploy them abroad through investments into overseas assets. Flush with cash, and as of late 2001 a new member of the WTO, the stage was set for a dramatic increase in the overseas activities of Chinese firms, both state-owned and private. In theory, any Chinese firm pursing a worthy investment would be able to engage in an overseas acquisition or investment; in reality, it was the SOEs that dominated, accounting for more than 80% of outbound foreign investment (OFDI).[13]

The expansion of Chinese investments and interests overseas gave rise to the first wave of scrutiny of "China Inc." as the seemingly coordinated system of state-owned enterprises, state banks, and the Chinese government came to be called. Yet observers soon began to note that the China Inc. system was not working in lock-step coordination with Beijing's demands, as many had assumed it would. "Infighting among bureaucracies with competing agendas crops up again and again across China's industrial landscape," noted *The Economist* in a 2005 piece. So uncoordinated was this system, the publication asserted, that "Fears that Chinese firms are acting as the commercial arm of an expansionist state are thus belied by a more complicated and disorderly reality."[14] The overlapping bureaucratic interests, the competing commercial and strategic objectives of given SOEs, and the drive for profit by smaller, private companies convinced some that Chinese state capitalism was not the threat many assumed it to be.[15]

Rise of the investor state

What critics of the inefficiencies of "China Inc" failed to observe were efforts by Beijing to address the precise failings of the system that so many outside experts had flagged.[16] Indeed, internal to the CCP and the Chinese government, many of the flaws that appeared in the pages of Western publications had long been obvious to economic planners in Beijing.[17] In the years following the 2008 Global Financial Crisis, while many analysts rightfully focused on the massive accumulation of debt unleashed by Beijing's efforts to stave off economic collapse, a more fundamental transformation was underway to redefine the party-state's relationship to capital, firms, and assets. Rather than seeing its role as that of owner and regulator of state assets and enterprises, Beijing took steps to become a core investor, a role some scholars have described as an "investor state."[18]

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On the surface, this new role would entail far less overt influence over the decision-making of SOEs and the burgeoning private sector. Yet, this new model swapped an increasingly antiquated system for guiding state development priorities for a much more efficient one (even if problems still linger, as discussed

below). Barry Naughton has called this process the "financialization" of the state sector, resulting in "an increasingly interventionist government, steering increasingly important state firms, through financial instruments."[19]

Central to this shift was the emergence of state investment entities that began to take equity stakes in private, public, and mixed-ownership firms. As Meg Rithmire and Hao Chen recently conclude, "The CCP has adopted the tools of state investment to pursue strategic objectives, including industrial upgrading, maintaining financial and economic stability, and solidifying the party-state's ability to monitor and control economic actors."[20] They continue, "State investment is not just about asset management, but is a new means through which the party-state penetrates economy and society."[21]

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The intellectual and policy architecture underlying the "investor state" approach emerged from the Third Plenum of the Eighteenth Party Congress in 2013, with a series of documents that developed into a new chapter for China's hybrid economy, with a more robust (and ultimately opaque) blurring of public and private capital, an admixture of various types of ownership, and state-owned entities further integrated into market structures. Central to this vision was a shift from "managing enterprises to managing capital" (从管企业到管资本) via the creation of "state-owned capital investment companies" (国有资本运营公司), which, according to the Third Plenum Decision, "must serve the strategic goals of the state, invest more in key industries and areas that are vital to national security and are the lifeblood of the economy."[22] The following year, a new pilot program was announced that included an initial batch of ten central and more than one hundred local state-owned capital investment companies, including State Development & Investment Corp. (SDIC) and COFCO Capital, a subsidiary of the COFCO Group.

How would the "managed capital" approach work in practice? Then Deputy Minister of Finance Xu Hongcai explained in 2015 that henceforth SASAC would have to convey directives straight to state capital investment companies rather than directly to operating firms. These state capital investment companies, now armed with regulatory guidance from SASAC, can exercise rights as shareholders or via corporate boards, where they can pass along directives. Such a system is seen as putting Chinese regulators at arm's length, while still allowing them to exert regulatory guidance.

Driving the "managed capital" approach is a recognition that as the CCP pushes to further blend state and private capital via mixed-ownership reform, and as Chinese corporations continue to expand their overseas operations and investments, SASAC's traditional modes of regulation – prioritizing firm-level performance and output – are no longer suitable; nor, indeed, practical from an informational perspective, given the dizzying pace of change in the global economy and, perhaps more salient, the explosive number of entities and subsidiaries now technically under SASAC's purview.[23] As SASAC's Hao Peng put the matter more bluntly in 2019, "The [old] model used to regulate SOEs in the domestic market is no longer suitable for those companies 'going out' (走出去)."[24]

Not only has Beijing's framework for regulating SOEs undergone a profound shift but so too has its approach to industrial policy.

Not only has Beijing's framework for regulating SOEs undergone a profound shift but so too has its approach to industrial policy, which now tracks the larger financialized "investor state" outlook.[25] Under this new paradigm, state investors – including Central Huijin and a proliferating number of state asset managers, including China Chengtong Holdings Group – guide and direct trillions of RMB in cash and capital into sectors deemed strategic priorities by Beijing via government

guidance funds (政府产业引导基金) and other investment mechanisms. While this approach has roots dating back to the 1980s (most notably the now-defunct China Venturetech Investment Corp.), this new marketized approach to industrial policy has taken on a new life during the Xi administration, especially with the unveiling of the National Integrated Circuit Industry Investment Fund (国家集成电路产业投资基金) in 2014. According to a recent report by Beijing-based Zero2IPO Research (清科研究院), the majority of China's now-existing guidance funds focus on industries prioritized in the "Made in China 2025" industrial strategy, with a focus on seven emerging strategic industries: energy conservation and environmental protection, emerging information industry, biotech industry, new energy, new energy vehicles, high-end manufacturing, and new materials.[26]

Central to this paradigm shift is the CCP's increasingly sophisticated dominance of the domestic financial system.

Central to this paradigm shift is the CCP's increasingly sophisticated dominance of the domestic financial system and the belief that Beijing can "steer" China's economic and technological trajectory with greater aplomb via new mechanisms that channel capital through market-participant or market-like entities.[27] While this evolving system may harness key elements of market competition and capitalist behavior, in the end, significant sums of money continue to be allocated according to political imperatives, with all of the attendant waste and overcapacity that has come to typify China's industrial planning apparatus.[28] Such weaknesses are not lost on China's industrial planners, who instead appear to have adopted a "venture capitalist" approach that implicitly understands most investment "bets" won't be winners. The goal, then, is to place sufficient bets to ensure enough productive, profitable, or strategic outcomes.[29] Put another way, China's broader financial ecosystem is acting at the front end as "investor of first resort" and (selectively) at the back end as backstop and subsidizer for firms and industries of sufficient economic, political, or strategic importance.[30]

The Party leads everything

Accompanying the growth of the "investor state" model and the expansion of China's economic and commercial interests on the global stage was the reassertion of the CCP's control over nearly all aspects of domestic economic and social life. Beginning with China's leadership transition in late 2012, observers were astonished by the rapid resurgence of the Party as addressed the universal perception that it was facing existential crises on multiple fronts – from rampant corruption to a breakdown of its basic governance structures and institutions. That conjoined with a widely held (but perhaps less realistic) view that as China's economy matured, the middle class grew, and more access to travel and international information was available, the Party itself would have to liberalize, i.e., loosen its grip on society and non-Party institutions.

Xi Jinping turned his attention to these problems as a topmost priority immediately after assuming office in November 2012. The official communiqué from a January 23, 2013 Politburo meeting chaired by Xi laid bare the problems facing the CCP: During China's transition from a closed to an open economy, CCP membership had ballooned, making it more difficult to "manage and govern," which in turn had contributed to the wavering of conviction, lax organizational discipline, the degeneration of ideology, and even moral decay. The Party had taken on a Rotary Club functionality, with membership perceived as an advantage to build personal networks and wealth. With new global and domestic uncertainties facing China, the communiqué continues, the CCP must confront and resolve those problems that "weaken its creativity, cohesion, and fighting strength." A CCP researcher put the matter more starkly to the official Xinhua News Agency two days later: If these problems are not addressed in a timely manner, "the governing capability and status [of the CCP] would be jeopardized."

Since 2013 there has been a raft of new official documents stepping-up the Party's oversight and involvement in SOEs.

These efforts extended to China's economy, with significant repercussions for both the country's state-owned and private sectors.[31] Since 2013 there has been a raft of new official documents stepping-up the Party's oversight and involvement in SOEs, including "Some Opinions on Strengthening the Party's Leadership and Enhancing Party Building While Deepening Reform of State-owned Enterprises" and the 2017 SASAC notice on requiring central SOEs to revise their articles of association to incorporate Party building.[32] In October 2016, at a two-day meeting on SOE Party building, Xi Jinping delivered a speech in which he declared that Party organizations in SOEs should "fully exhibit…their leading core role" within the firms. The meeting, and Xi's speech, were a milestone for Party building in SOEs, and most notably, the drive to push Party organizations into corporate governance. But perhaps the most important step came at the Nineteenth Party Congress in October 2017 and the revision of the Party Constitution, which added language reading: "The leading Party members groups or Party committees of state-owned enterprises shall play a leadership role, set the right direction, keep in mind the big picture, ensure the implementation of Party policies and principles, and discuss and decide on major issues of their enterprise in accordance with regulations." While many SOEs continue to pursue commercial imperatives, the campaign to insert the CCP into all levels of organization and decision-making is closing the gap between SOE boardrooms and the Party's strategic goals.

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The private sector was likewise impacted by Xi's campaign to increase CCP control, as the campaign to strengthen Party oversight of SOEs was soon expanded to encompass a range of firms, including some of China's most well-known technology and consumer brands, such as Alibaba and Tencent.[33] While implementation of new CCP guidelines is far from universal, there has been nonetheless a quantitative as well as qualitative increase in the amount of direct and indirect oversight the CCP now wields over China's private sector.[34] Yet ironically, Beijing clearly sees the oversight by the CCP as a critical factor to allow firms more market autonomy, rather than viewing Party oversight as a constraint on firm behavior. In this sense, as Chinese commercial and investment entities further integrate into the global economy and as planners attempt to nudge China's domestic economy up the value ladder, the role of the CCP within firms will only become more important to Beijing, not less. And, somewhat counterintuitively, the Party will continue to separate "government" and enterprise at precisely the same time it increases its own role.

Xi's goal for SOEs: Stronger, better, bigger

At the same time that the CCP is asserting more control over SOEs, it is also driving a wave of megamergers to scale-up the state sector.

While the CCP is asserting more control over SOEs, it is also driving a wave of megamergers to scale-up the state sector and create even bigger global giants. This is a stark departure from the previous conventional wisdom that China had elevated "markets over Mao," and instead showing that under Xi, "the state strikes back."[35] State firms, Xi Jinping declared in 2017, should become "stronger, better, and larger."[36] From 189 central SOEs in 2003, mergers had consolidated this number to 96 today, and according to statements by SASAC, this number might contract further to 80 firms in the coming decade. While the process of SOE consolidation certainly preceded Xi, the primary goal now is the size and scale of firms, rather than consolidation as a means of creating more legitimacy competitive firms. Prominent examples of recent mergers include China State Shipbuilding Corporation and China Shipbuilding Industry Company in late 2019, which created the world's largest shipbuilder; the 2017 merger of China's largest coal producer, Shenhua Group, and Guodian Group, one of China's largest power generation companies. In 2015, SASAC merged China CNR Corporation Limited and China South Locomotive & Rolling Stock Corporation Limited to create China Railway Rolling Stock Corporation, now the world's largest builder of

trains.[37] Armed with state-orchestrated size and scale, China's globe-spanning SOEs help ensure Beijing's access to, and control over, infrastructure, natural resources, and technology that is beyond the reach of foreign firms that focus on quarterly results and answer solely to shareholders. Even taking into account the pockets of autonomy that SOEs have to pursue their own commercial imperatives – sometimes in contravention to Beijing's own wishes or demands. In the aggregate US and Western governments possess nothing like China's super-scaled state actors.

Ecosystem advantages

Perhaps the most underappreciated feature of CCP Inc. is the dense and often unseen networks that connect and coordinate the Chinese government, SOEs, and nominally private firms.

The scale of China's SOEs and private sector companies, along with Beijing's evolving methods for supporting their global expansion, already present a significant challenge to foreign firms occupying the same commercial space. But perhaps the most underappreciated feature of CCP Inc. is the dense and often unseen networks that connect and coordinate the Chinese government, SOEs, and nominally private firms. Rather than viewing the overseas behavior of these firms as actions taken by individual actors, the power of China's state capitalist system stems from the synergies created through strategic alliances, cross shareholdings, frequent personnel rotations; and, increasingly, complex vertical integration.

Consider the case of COSCO Shipping Group. This giant state-owned conglomerate controls more than 300 subsidiaries, 140,000 employees, a fleet surpassing 1,200 ships, total assets of US$100 billion, yearly revenue of more than US$42 billion (as of 2018), and now has operations spanning the entire global transportation supply chain. In addition to dispatching ships to 267 ports across 85 countries – including dozens of ports that it owns or operates – it now runs 123 foreign railway services as part of a growing logistics business.

In 2017, at SASAC's direction, COSCO raised more than US$1 billion from nine central SOEs to fund the purchase of 20 new ships.

Not only does the company have equity stakes in a range of fellow SOEs (including China Merchants Group, China State Shipbuilding, China National Nuclear Corporation, and China Eastern Airlines) but these firms, in turn, own equity in COSCO. At times, such shareholdings appear strategic and financial: In 2017, at SASAC's direction, COSCO raised more than US$1 billion from nine central SOEs to fund the purchase of 20 new ships. Obviously, most of COSCO's foreign competitors do not possess the ability raise capital via government-orchestrated equity sales. Moreover, the company has nearly 100 strategic alliances with other SOEs, including China Mobile and China Minmetals Group, for the purpose of information sharing, collaboration on ship financing, and infrastructure upgrading. The connections among firms extend to personnel, with COSCO's current president previously having served as president of China Merchants Group, while the current chairman of China Merchants Group previously served as vice chairman of COSCO.

The fruits of the CCP Inc. network can be seen in the port of Piraeus in Greece, which is currently majority-owned by COSCO Group's Hong Kong-listed subsidiary.[38] After steadily increasing its equity stake in the port authority during the past decade, the port now serves as a beachhead for dozens of Chinese state- and privately-owned firms entering the European market. In 2019, the COSCO subsidiary OceanRail Logistics acquired Piraeus Europe Asia Rail Logistics (PEARL), giving the company operation qualifications to run rail into Europe. In 2018, Huawei won the contract to redesign and replace Piraeus Port Authority's network infrastructure, while the Industrial and Commercial Bank of China (ICBC) – the world's biggest bank measured by assets – and the Bank of China received licenses to set up local operations via their Luxembourg bank license. State Grid invested

US$352 million in Greece's power grid operator ADMIE and has expressed interest in ADMIE's plan to build an underseas power cable linking Crete to the Greek mainland by 2023.

How resilient is CCP Inc.?

While China's economy will likely continue to rebound, gone are the days when vast resources can be exerted with little regard for returns.

There is also the important question of the strength and sustainability of Beijing's current approach. Although China has refined its goals and is working to refine the institutional framework, it has yet to create good incentive structures, especially when "scale" and "speed" are often the catalyzing goals. Waste comes at an increasing cost when an economy grows at an expected 1.9% (per IMF estimates) compared to 6-plus percent. While China's economy will likely continue to rebound, gone are the days when vast resources can be exerted with little regard for returns. Indeed, as efforts to tighten capital outflows after 2015 already indicate, Beijing has likely concluded that scarcity is a more permanent feature of its development trajectory.

China's sui generis CCP Inc. system is creating an entirely new political-economic order.

The example of CCP Inc. demonstrates however, that the issue is less that China's political economy is riven with "contradictions" (as many market-friendly commentators oft assert), but rather that the analytical frameworks that many of us are using to understand China's economy are stuck in past paradigms that view "state" and "market" as standing in tension. In reality, China's sui generis CCP Inc. system is creating an entirely new political-economic order, and one that is already leaving a deep impression on the global order. Questions surrounding the resiliency (or lack thereof) of China's evolving state capitalist system must proceed with a more calibrated understanding of both sides of the ledger – what the system does well and what it does poorly. More than four decades after the death of Mao Zedong, the CCP has proven itself capable of significant (illiberal) governance innovations, often motivated by fear of losing power. With the increasing geopolitical frictions, this motivation will only intensify.

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Notes

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[1] The term first gained prominence in the wake of China's accession to the WTO in late 2001, and most notably after CNOOC's failed bid to acquire Unocal in 2005. The book by journalist Ted Fishman, China, Inc.: How the Rise of the Next Superpower Challenges America and the World, is the first systematic investigation of China's rising global economic power in the post-WTO era.

[2] There are long-standing complaints about the lack of precision in defining "China Inc." and, indeed, "state capitalism." Mark Wu, in his highly influential 2016 article, "The 'China, Inc.' Challenge to Global Trade Governance," critiques the term "state capitalism" as inadequate, owing to the "fundamentally different – even unique" nature of China's political economy. Ilias Alami and Adam D Dixon provide a more systematic deconstruction of the term "state capitalist," ultimately concluding, "analytical value of the concept is weak." See their "State Capitalism(s) Redux? Theories, Tensions, Controversies," Competition & Change, 24(1), pp. 70–94. While these criticisms are certainly true insofar as they go, it remains the case that a superior alternative has not yet been created, and to date, "state capitalist" goes further in providing a stylized description of China's political economy than does any yet-existing alternative.

[3] The recent slap down of Ant Financial and the delay of its Shanghai and Hong Kong IPO is yet another indication of the complex realities of China's political economy.

[4] See Curtis Milhaupt and Wentong Zheng, "Beyond Ownership: State Capitalism and the Chinese Firm," Georgetown Law Journal, 103 (2015), pp. 665–722.

[5] "郝鹏接受中央主流媒体采访 谈当前中央企业发展态势," available at http://www.sasac.gov.cn/n2588020/n2877938/n2879597/n2879599/c15343606/content.html

[6] The Economist, "Blooming for the Glory of the State," August 15, 2020.

[7] Chang-Tai Hsieh and Zheng Song, "Grasp the Large, Let Go of the Small: The Transformation of the State Sector in China," Brookings Papers on Economic Activity, Spring 2015, available at https://www.brookings.edu/bpea-articles/grasp-the-large-let-go-of-the-small-the-transformation-of-the-state-sector-in-china/

[8] Explorations into the social effects of SOE restructuring can be found in William Hurst, The Chinese Worker under Socialism (Cambridge: Cambridge University Press, 2009) and Ching Kwan Lee, Against the Law: Labor Protests in China's Rustbelt and Sunbelt (Berkeley: University of California Press, 2007).

[9] Arthur R. Kroeber, China's Economy: What Everyone Needs to Know (New York: Oxford University Press, 2016).

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