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**Regulatory Innovation by Leninist
Means: Communist Party Supervision in
China's Financial Industry***

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Regulatory Innovation by Leninist Means: Communist Party Supervision in China's Financial Industry

Abstract

Pervasive government interference and cronyism in China's financial sector resemble the deficiencies displayed by many other political economies. But in its regulatory efforts, China's government has means at its disposal that are very different. The rise and demise of the Central Financial Work Commission (CFWC) is an outstanding example for the innovative potential and also for the limits of Communist Party institutional engineering in China's economy. The creation of the CFWC was a strategy to arrest the breakdown of hierarchies in the financial industry and to restore central policy decisiveness. By means of Party control over senior financial executives and of Party-sponsored institutional reorganization, China's political leadership pushed through a centralization of financial market supervision and a series of regulatory innovations starting in 1998.

Leninist institutions provided China's politicians with a reserve capacity for responding to perceived organisational crises and for innovating economic regulation. Leninist means of control were conducive to establishing centralized supervision and more uniform regulation. But they failed to introduce market-driven incentive structures for financial executives, did not raise the efficiency in allocating capital and mismatched with the emerging new forms of corporate governance. The new Wen Jiabao government therefore tried a different approach to financial sector reform, redefined the role of Party bodies and dissolved the CWFC. By laying the foundations for national market regulation, this Communist Party body however paved the way for the efforts at dismantling old socialist institutions in China's financial sector that are underway since 2003.

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Regulatory Innovation by Leninist Means: Communist Party Supervision in China's Financial Industry

Several major studies of China's economic reforms expound that Leninist means of control, in particular the Communist Party's nomenklatura system, provide the basis for upholding a precarious but productive balance between economic decentralization and political coherence. The power to appoint and remove senior officials and executives facilitates monitoring and sanctions by the centre and gives subordinate officials career incentives to comply with central decisions even if they do not benefit themselves.¹ At the same time, Communist institutions are seen as displaying typical weaknesses in implementing economic reforms. Agents in the Party and state hierarchy tend to exploit information asymmetries to evade the orders and the monitoring by their principals. Formal hierarchies are being eroded by informal rent-seeking and asset-stripping activities.² Moreover, the Communist Party's political and bureaucratic means of control "are inherently unable to discriminate among economic activities on efficiency grounds".³

Considering the far-reaching recent institutional changes in China's economy, do Leninist institutions really still make a difference in economic regulation? This paper will study the role of Communist Party organs in one crucial sector of the economy: China's financial industry. The supervision and regulation of this key economic sector can serve as an important case study for assessing the changing capacities of Party organizations and Party personnel to control, adapt and learn. Moreover, China's financial industry is a major battlefield for the most powerful political and economic actors who try to benefit from their control over state assets. The banking sector belongs to the key political resources since it provides politicians with a means to steer money into favoured sectors and cultivate political support. Therefore, the financial industry can justifiably be treated as an integral part of the political system.⁴ Pervasive government interference and cronyism in the financial system resemble the deficiencies displayed by many other developing political economies. But in regulating the financial sector and in dealing with the inherent deficiencies, China's government has means at its disposal that are very different.

Retrieving Central Control and Policy Decisiveness

One key feature of the reforms in China's financial sector after 1997 has almost completely been ignored by Western studies. These reforms were based on the creation of a Communist Party Central Financial Work Commission (CFWC, *Zhongyang jinrong gongzuo weiyuanhui*), which in turn installed new Party organs and a centralized Party hierarchy in China's banking, securities and insurance industries. The CFWC was built as a monitoring agency to combat hidden action of Party-appointed managers. It exercised personnel authority and political supervision over the Central Bank and state financial regulatory bodies as well as over China's 27 most important national financial firms. It was therefore occasionally characterized by banking insiders as the "power centre" of China's financial business.⁵ By means of Party control over senior financial executives and of Party-sponsored institutional reorganization, the central leadership pushed through a centralization of financial market supervision and a series of regulatory innovations since 1998. It then ordered a surprising retreat from separate Party control in 2003 by dissolving the CFWC and transferring most of its functions to state regulatory bodies. In this study, the rise and demise of the CFWC will be scrutinized as a case study for understanding the changing role of the Communist Party in China's economy.

Victor Shih interprets the centralization efforts in the financial system as the product of factional rivalry and rent-seeking by central bureaucrats with Zhu Rongji as their main representative.⁶ I do not agree with this interpretation. Resource extraction under centralized control with the aim of financing strategic policy goals of the CCP leadership (from rescuing state enterprises to maintaining social stability) cannot primarily be seen as rent-seeking by a certain stratum of officials.⁷ Resulting from my field research, I explain the creation of the CFWC as a strategy to arrest the breakdown of hierarchies⁸ in the financial industry and to restore central policy decisiveness under the shocking impression of the Asian financial crisis.⁹ According to Olson, the key to defending the Party Centre's "encompassing interest" in the extraction and allocation of financial resources is the political authority and insulation of Central Committee bodies in the face of the "countless conspiracies" and "small-group covert collusions" emerging from within the Communist state.¹⁰ This is why Zhu Rongji relied on the CFWC for establishing centralized financial control. The CFWC was staffed not with financial professionals but with Party organisation specialists. It was thereby insulated from the intense insider dealings within the state bank system and put into a more independent position to monitor financial executives.

Superficially, Zhu Rongji seemed to come close to the ideal type of an enlightened leader relying on competent technocrats and fighting against special interest groups, as propagated by proponents of the East Asian developmental state. But Zhu is more appropriately characterized as a

Leninist centraliser since his approach to retrieve political authority was shaped and facilitated by the Leninist institutional context. As soon as China's top leaders had agreed on the need for centralization to counter financial risk, they were able to achieve comprehensive regulatory reform by leaving state institutions intact on the surface for the time being while swiftly changing the internal rules governing Communist Party-appointed "leadership cadres" and creating a powerful, yet mostly invisible Party body for monitoring financial executives. In political economies such as South Korea that also expose strong government involvement and active administrative guidance in the financial sector, transformation of the regulatory regime had to be achieved through a much more protracted reconfiguration of state laws and agencies.¹¹ In comparison, Leninist institutions provided China's politicians with a reserve capacity for responding to perceived organisational crises and for innovating economic regulation. By reconfiguring Party institutions to promote his policy goals, Zhu Rongji displayed the "artful strategy on the part of the political entrepreneurs at the top of the CCP" that Shirk stressed as a feature of major reform initiatives in the Chinese polity.¹²

The practice of Communist Party control and the role of secretive Communist Party organs in economic regulation belong to the least understood key elements of China's political economy. In Western scholarship, there appears to be a strong tendency in many studies of the Chinese economy to treat Party bodies as something irregular and exogenous to state bureaucracies. In actuality, Communist Party organs such as the CFWC whose organizational set-up and functions are formally regulated by a series of lengthy (although not easily obtainable) Party documents cannot be seen as irregular. Instead Party organs must be recognized as part of the core institutions of policy-making and supervision in China's present political economy. Under the Zhu government, Communist Party supervision in China's financial industry, exercised mainly through control over senior executives in company boards (appraisal, appointment, removal and discipline inspection of "leadership cadres"), was an integral part of state regulatory reforms and was at the centre of the incentives and constraints that influenced the behaviour of key decision makers in financial firms. At the same time, the Zhu era brought about profound changes in shareholding structures of many Chinese companies and an increasing role of transnational investors. What is at issue here is the adaptability of Party control to a changing economic environment, to new forms of corporate governance and to new types of market participants.¹³ But it is important to stress that Party bodies are not passive players awaiting the onslaught of new market forces. Instead they are actively trying to shape the incentives and constraints on leading market participants and are not willing to simply give up their power over executive appointments.

I argue that Leninist means of political and administrative control were conducive to establishing centralized supervision and more uniform regulation in China's financial industry. At the same time, they failed to introduce market-driven incentive structures for financial executives and

mismatched with the emerging new forms of corporate governance. The dissolution of the CWFC therefore marked a major redefinition of Party control in economic regulation. In retrospect, by laying the foundations for national market regulation, this Communist Party body paved the way for the efforts at dismantling old socialist institutions in China's financial sector that were initiated by the Wen government since 2003.

Communist Party Institutional Engineering in China's Financial Industry

The Asian financial crisis provided a window of opportunity for organizational reforms that had been pushed by China's main economic policy maker of the 1990s, Zhu Rongji, for several years but had met with stubborn resistance mainly by local governments. Finally Zhu gained the support of his Politbureau colleagues to impose an unprecedented degree of central control over the financial sector.¹⁴ Far-reaching policy proposals prepared by staff of the Central Finance and Economics Leading Group (CFELG)¹⁵ were adopted during an emergency national financial work conference in November 1997. Zhu was empowered to put regional Central Bank branches and regional subsidiaries of other state financial regulatory bodies under the exclusive control of the central government and to close down local financial institutions if they were judged by the central government to carry serious risks or conduct irregular market operations. The centralization of financial supervision and the establishment of a "vertical leadership system" and "vertical management of cadres" was openly justified by the necessity to "shake off local and departmental interference" in financial supervision and management.¹⁶

Zhu's main instrument to achieve centralization in the financial system was the CFWC. Establishing a special central Communist Party body to take care of financial centralization was a proposal put forward by staff of the CFELG Office and Zhu Rongji energetically pursued it. Since such an approach was in line with classical Leninist organizational means to streamline and discipline unruly local government bureaucracies, Zhu obtained the backing of Jiang Zemin and Li Peng despite initial qualms among some CCP leaders about the emergence of "a new organization department for financial institutions" or even "a new center for financial policy-making" controlled by Zhu.¹⁷ In public statements, the lack of Party discipline, the ignorance towards Party directives and a general neglect of "Party construction" within supervisory organs and financial firms were presented as the root cause of the problems in China's financial industry.¹⁸ This fully reflects the Leninist logic of control over personnel and organization. Establishing a centralized hierarchy of Party organs would be the key to solve the problems of China's financial sector. Consequently, the establishment of a vertical leadership structure of Communist Party organs took place ahead of the estab-

lishment of a centralized hierarchy of state supervisory organs. Immediately after its foundation, the CFWC ordered every financial institution to name one Deputy Party Secretary who was supposed to take full responsibility of Party, personnel and ideological work and concurrently had the rank of a Deputy Head in the management of the financial institution concerned.¹⁹

The main goal of the CFWC's work – safeguarding the “safety, efficiency and stability” of China's financial system – was set by the CCP leadership under the impression of financial scandals in China and the shocking demonstration effect of the Asian Financial Crisis. In documents and speeches during the founding phase of the CFWC, a strong mandate was bestowed on this new body.²⁰ In practice, the most important task of the CFWC was the recruitment and surveillance of executive personnel in key regulatory bodies and financial firms. Under the commission's guidance, comprehensive personnel reshuffles were carried out especially in 1999 and 2000 (see below). Significantly, the CFWC did not enjoy formal decision-making authority with regard to the contents of financial regulation that was supposed to be formulated by government bodies such as the Central Bank or the Securities Regulatory Commission. The CCP Central Organization Department still had the final say in appointing the most senior financial executives. And the CFWC was also formally excluded from interfering into the management decisions of financial firms.²¹

Nevertheless, the CFWC constituted a very powerful body. It had only about 200 officials but it was ranked above ministerial level since a Vice-Premier, Wen Jiabao, was its head bearing the title of CFWC Secretary (*shuji*). Actually, the day-to-day work of the CFWC was headed by its Executive Deputy Secretary, Yan Haiwang. As a former Party Secretary of Gansu province, Yan had full ministerial rank and a very good working relationship with Wen Jiabao who had also worked in Gansu province for several years in his early career. Although Yan had no working experience in the financial system prior to his appointment, Wen Jiabao apparently chose him as his right-hand man because Yan had no insider connections to China's banking establishment and thus was a neutral newcomer in an environment full of insider dealings and lobbyist pressures. But Yan was a specialist in Party organizational work that was at the centre of the CFWC's mandate.

In the official Financial Yearbook of China, the CFWC's brief formal work reports were printed ahead of the Central Bank's reports. This marked a rare open indication of the actual political ranking. To government insiders, the power and the status of the CFWC were proved by the fact that it had so many high-ranking cadres among its slim personnel. More than 20 cadres with the rank of Vice-Minister and more than 70 cadres with the rank of Bureau (*ju*) Chiefs worked in the CFWC. The majority of the remaining personnel had the rank of Division (*chu*) Chiefs. In addition, the Chairmen of national financial institutions' Supervisory Boards that were appointed and administered by the CFWC had the rank of Vice-Ministers.²² The core departments of the CFWC were its Organization Department, its Financial Discipline Inspection Work Commission (subject to “dual

leadership” by the CFWC and the Central Discipline Inspection Commission) and its Department of Supervisory Board Work. Only some CFWC staff had working experience in financial business but almost all of them were familiar with Party work. In the founding phase, the CFWC offices were located in the Central Bank headquarters complex in Beijing. In April 2002, the commission moved into a modern and expensive new building close to the Workers’ Stadium.²³

Premier Zhu Rongji took an active interest in the work and especially in the cadre appraisals and recommendations as well as the discipline inspections undertaken by the CFWC. As a regular practice, the CFWC reported directly to its head Wen Jiabao who concurrently served as a member of the Politburo and as Vice-Premier in charge of financial work. Since Wen, in addition, functioned as Chief of Staff (*mishuzhang*) of the CCP’s Central Finance and Economics Leading Group, the CFWC had regular exchanges with the staff of this key economic policy-making body of the Party Centre.²⁴

The hypothesis that the CFWC functioned as a shadow Central Bank²⁵ could not be substantiated by my research, not even for the founding phase when the CFWC was trying to establish itself in the central government. Fundamental issues, such as major movements in interest and exchange rates or the controversial sale of state-owned shares in the stock market were decided at the highest decision-making level. Since the CCP’s supreme economic decision-making body, the Central Finance and Economics Leading Group, comes together only two to four times a year for laying down strategic goals and broad policies, the most important policy decisions were usually made in Prime Ministerial office work meetings (*zongli bangong huiyi*) with Zhu Rongji and the Vice-Premiers, Ministers and financial regulators concerned in attendance. The CFWC had no room for major policy-making of its own. It had to work within the confines set by top-level decision-making, and its head, Wen Jiabao, clearly treated the CFWC as a body for implementing, not for formulating, the Party’s policies.²⁶ From the second half of 2000, after the centralization measures in the financial system had been implemented, the CFWC was ordered to keep a lower profile and restricted in its activities to traditional internal Party functions: cadre management, disciplinary matters and ideological work. The CFWC research office contributed individual pieces to the debate on financial supervision but was not in a position to shape the outcome of the policy-making process that resulted in the dissolution of the CFWC (see below).

Beyond the Party apparatus, the CFWC maintained close contacts with the Central Bank and with the regulatory commissions for the securities and insurance business whose cooperation was essential in implementing the centralized personnel and supervision system. So as to facilitate communication and coordination, the CFWC was systematically interwoven with the leadership of the state financial supervisory bodies. The full-time Executive Deputy Secretary (i.e. vice head in charge of day-to-day affairs) of the CFWC, Yan Haiwang, concurrently served as a Vice-Governor

of the Central Bank. And the Executive Deputy Party Secretaries (ranked as Vice-Chairmen) of the Securities Regulatory Commission (Chen Yaoxian) and the Insurance Regulatory Commission (Wu Xiaoping) were simultaneously members of the CFWC.

From summer 1998 until summer 2000, during the high tide of organizational and personnel reshuffles in the financial industry, the CFWC on average organized almost monthly „enlarged conferences“ for leading cadres in the financial system. After the 17th plenary session of the CFWC in July 2000²⁷, conferences were no longer held regularly but with a frequency of only two in the entire year 2001 and with a focus on ideological work (“three representatives”, fighting falungong).²⁸ There were two reasons for that. Firstly, in the eyes of the Party leadership, the CFWC had already accomplished its main task of implementing the centralized, vertical leadership system in national financial institutions. And secondly, the CFWC was supposed to keep a lower profile to prevent it from being seen as a shadow Central Bank and as the power centre of banking, securities and insurance policy-making in China.²⁹

Communist Party Management of Senior Financial Executives

The comprehensive top-level reshuffles in financial institutions that were implemented in 1999 and 2000 were usually presented to the public as decisions by the CCP Centre and the State Council.³⁰ But the selection and nomination of senior executives were actually carried out by the CFWC that was in control of the personal dossiers of all high-ranking executives and “reserve cadres” (*houbei ganbu*) in China’s financial industry. The CFWC was responsible for on-the-spot investigations and personal appraisals of the most senior executives. The “number one persons” (*yibashou* with Vice-Ministerial rank) in national banks were formally appointed or removed by the CCP Central Organization Department. But the CFWC prepared these appointments through its investigations and recommendations and, in addition, had the key power to reorganize the second and third layers of executives in the leadership bodies of national financial institutions. The Directors of the nine sub-national branch offices of the Central Bank, for example, were jointly nominated by the Central Bank headquarters and the CFWC after consultations with senior executives of the branch offices concerned. The final decision was then passed during a CFWC office work meeting (*bangong huiyi*) chaired by Wen Jiabao or Yan Haiwang. When new heads of financial supervision bodies or of national financial firms were appointed, Yan Haiwang and a Deputy Director of the Central Organization Department often appeared together at the institution concerned to announce the decision in the name of the CCP Centre and the State Council.³¹

Before the establishment of the CFWC, the Central Organization Department had appointed only the members of the Party core group (*dangzu*) in the head office of national financial institutions. Managers in local branches of national financial institutions were jointly appointed by the head office and by the local CCP Party Committee where the branch office was located. Since the head office's Party core group had no formal vertical leadership authority over the Party core groups at branch offices, the branch managers were primarily oriented towards cultivating good relations with the local Party Committees.

After the establishment of the CFWC, the appointment procedures and authority relationships changed fundamentally. Thereafter, the CFWC, in cooperation with the financial institution and state regulatory body concerned, actively investigated, appraised and appointed financial cadres who were deemed loyal to the Party Center and professionally qualified to take leading positions. The headquarters of financial institutions still recommended persons to become senior managers. But they now had to submit and justify their choice to the CFWC for approval. The final decision rested with the CFWC that closely cooperated with banking, securities and insurance regulators in checking the professional qualification (*renzhi zige*) of candidates. Moreover, the CFWC installed vertical leadership authority by newly established full Party Committees between the national and subnational management levels.³² Because of this system, “senior managers, especially in the Big Four banks and the policy banks, were politicians whose careers rode on the central leadership's perception of them”.³³ In addition, the CFWC also appointed the secretaries of the respective CCP Discipline Inspection Commissions within national financial institutions and the members of Supervisory Boards sent to these institutions. All in all, impressively, the nomenklatura managed and supervised by the CFWC and its discipline inspection commission included 3,450 leading cadres in 2001 (for the scope of the CFWC's nomenklatura, see chart 1).³⁴

Chart 1

Communist Party Control Over Senior Executives in China's Financial System: Division of Labor in Centralized Cadre Management (from the CFWC's foundation in June 1998 to its dissolution in March 2003)

CCP Central Organization Department

Appointing the heads (Vice-Ministerial rank) of national financial institutions, based on the cadre appraisal and recommendation of the CFWC.

CFWC

Appraising and appointing senior executives in national financial institutions, from the Deputy Bureau Chief level (*fu ju ji*) to Vice-Ministerial level (*fu bu ji*), after consultations with the institutions concerned. Cadres of Vice-Ministerial rank were formally appointed by the Central Organization Department.

- Including Central Bank, Securities Regulatory Commission and Insurance Regulatory Commission
- Including 27 national commercial financial institutions and their provincial-level subsidiaries representing around 80% of total assets in China's financial industry:
 - CFWC as principal supervisory body (*zhuguan* relationship): 18 commercial financial institutions for which the CFWC nominated the senior executives *and* the members of the Supervisory Boards (the big four national commercial banks, the three policy banks, the four asset management corporations, CITIC Group, Everbright Group, Bank of Communications, People's Insurance, China Life Insurance, China Reinsurance, China Export & Credit Insurance).
 - CFWC as registry body (*guakao* relationship): 9 financial institutions for which the CFWC nominated the senior executives but did not manage the Supervisory Boards (non-state financial commercial institutions such as Minsheng Bank, Minsheng Securities and Minsheng Life Insurance. Moreover: Merchants Bank, Sci-Tech Securities, Minzu Securities, Galaxy Securities, Government Securities Depository Trust & Clearing Co., Chung Mei Trust & Investment).

Sources: Interviews with regulatory officials; *Caijing*, March 5, 2003, pp.29-30, and April 5, 2003, p.78.

Since the CFWC was founded at a critical time in mid-1998, when China's most important financial institutions were ordered to undergo massive reorganizations, the CFWC assumed a key role in this financial industry restructuring by overseeing and shaping the establishment of new leadership bodies and authority structures. The year 2000 was the most lively time in the CFWC's work: In this year alone, the CFWC carried out on-the-spot investigations (*kaocha*) of 266 leading cadres and examined and approved (*shenpi*) the appointment of 253 leading cadres. Moreover, CFWC investigation groups toured the provinces and oversaw the establishment of new Party Committees in sub-national financial institutions.³⁵

Experiments with recruiting financial executives from Hong Kong and from overseas belonged to the most innovative aspects of the CFWC's work. Zhu Rongji had repeatedly demanded bold steps to recruit internationally experienced executives for China's financial institutions and to apply more flexible criteria in selecting these people. In January 2000 the CCP Central Organization Department announced plans to promote the recruitment of executives who had working experience abroad.³⁶ Wen Jiabao took up Zhu's initiative and put the CFWC in charge of implementing the recruitment of Hong Kong securities supervisors for the positions of Senior Consultant and Vice-Chairwoman of the Securities Regulatory Commission. Beyond top executives, "young talents", that meant native Chinese postgraduates and financial professionals currently living and working abroad, became a target of the CFWC's recruitment efforts.³⁷ Officials of the CFWC, in the guise of headhunters, even went on a road show to selected universities and recruitment fairs in

the US so as to persuade Chinese financial professionals to move back to their fatherland and take jobs in financial companies or regulatory bodies there.³⁸ Although CCP membership was not a precondition for being included, these recruitment efforts, according to interview information, were not highly successful since most “young talents” preferred to work in foreign financial companies and their China-based offices. But the CFWC’s efforts illustrate how far the extremely narrow traditional cadre recruitment practice, characterized by yearlong Party membership and cultivation of patron-client ties, had to be softened and stretched so as to reach out to foreign-trained financial professionals.

Communist Party Involvement in the Corporate Governance of Financial Firms³⁹

According to the official founding documents, the CFWC was prohibited from interfering into management decisions of financial institutions.⁴⁰ In addition, a key circular of the CCP Centre and the State Council had ordered the clear separation of Party and state organs from economic firms, including commercial banks and other financial firms, in November 1998.⁴¹ But in the case of the CFWC, there was even an intensification of direct oversight over some major financial firms after 1998. The CFWC was ordered to take care of asset restructuring in certain large state-owned financial institutions that had run into serious management problems, had undergone a state-sponsored merger operation or were under “rectification”.⁴²

Moreover, a key activity of the CFWC was the selection and management of Supervisory Boards in the most important national financial firms (see chart 1). By way of appointing and sending out supervisors, the CFWC assumed a prominent role in the corporate governance of the companies concerned. 16 Supervisory Boards of key national financial institutions with about 200 members were established in June 2000. The CFWC served as their principal and administrative office (wages and other expenses of the supervisors were allocated by the Ministry of Finance).⁴³ The heads of the Supervisory Boards with the rank of a Vice-Minister were selected and nominated in cooperation with and formally appointed by the CCP’s Central Organization Department. The other members of the Supervisory Boards were selected by the CFWC from diverse government bodies. Initially, the new supervisors were trained in intensive courses at Qinghua University’s business school. After they had taken up their work, the CFWC organized regular report sessions to discuss the situation in the respective financial institutions and to offer a platform for exchanges of views among supervisors. And it was the CFWC, after consulting with the Central Committee Discipline Inspection Commission, the Ministry of Finance and the National Auditing Administration,

that formulated the rules guiding the work of the supervisors.⁴⁴ The Supervisory Boards were rather industrious. In 2001, they formed about 100 special investigation groups (*jianchazu*) that inspected the national headquarters of most financial institutions as well as selected provincial-level and sub-provincial-level branch institutions.⁴⁵ Despite these efforts, the work of the Supervisory Boards was unanimously assessed by financial professionals as insufficient. CFWC Supervisory Board work exposed the same deficiencies in independent controls that are manifest in Supervisory Boards all over China's state-controlled industry. Supervisory Boards that, according to formal corporate governance rules, are overseeing the management's operations on behalf of shareholders and company staff, have no real powers to stop or correct any actions by members of the board.

CCP control over executive appointments in state-owned or state-dominated financial companies still appears to be solid. But what about the impact of new forms of dispersed shareholding structures, especially in companies that are listed or have a majority of non-state shareholders? Minsheng Bank (listed A-share) and Minsheng Life Insurance (not listed) were often presented to the outside world as China's most important "private" financial companies and thus can serve as important case studies.

Actually, the CFWC had a special relationship with Minsheng Bank starting from 1998. Despite a majority of non-state shareholders, the senior executives of this bank were appraised and nominated by the CFWC in the traditional context of the CCP's cadre system.⁴⁶ But since spring 2000, appointments were made more complicated for the CFWC due to more assertive board members. In that year, two candidates who had been nominated by the CFWC to serve as Minsheng Bank Deputy Directors were turned down by the Board of Directors that elected two other managers instead. Since then, *ex ante* negotiations between the CFWC and the large shareholders represented on the board have become the norm in appointing Minsheng Bank's senior executives so as to avoid the sort of conflicts that had erupted in 2000.⁴⁷

The CFWC also played a decisive role as the gatekeeper in the establishment of Minsheng Life Insurance. A company preparatory group (*choubেizu*) of the Federation of Industry and Commerce (FIC) had pursued the establishment of this company since December 1994. But only in October 2000, the Insurance Regulatory Commission, under the condition that a major foreign investor would join the shareholders and provide additional know-how, tentatively approved the new company. From the beginning, establishing Minsheng Life turned out to be a very difficult enterprise. Big state insurance companies lobbied central policy makers arguing against letting private investors control a major potential competitor. Moreover, Minsheng Bank, the forerunner in forming a non-state financial company, was broadly criticized by regulators, journalists and also by private entrepreneurs as displaying deficiencies very similar to state-owned banks, thereby weakening the credibility of a new FIC-connected enterprise such as Minsheng Life. Many potential private inves-

tors felt they would not have enough influence on the board, with an FIC representative serving as Chairman and with CCP interference in executive appointments. In fact, the CFWC arranged the composition of the company boards according to its political preferences by reducing the impact of certain private investors on the Board of Directors, thus leaving only positions on the Supervisory Board for some of them. Consequently, some big private investors were reluctant in their commitment. Only in September 2002, in the context of new restructuring initiatives by Wen Jiabao, the CFWC and the Insurance Regulatory Commission accepted a Singaporean insurance company to take a 5 percent stake and to join 21 domestic investors in running Minsheng Insurance. But it still took several months until Minsheng Life eventually started its business operations in June 2003: almost nine years after the start of preparatory work, more than two and a half years after the Insurance Regulatory Commission's initial approval and only after the dissolution of the CFWC. Significantly, the appointment of the company's Chairman still falls under the purview of the Insurance Regulatory Commission's personnel department that took over the cadre management functions from the CFWC (see chart 1 and chart 2).⁴⁸

If foreign big investors get involved in joint-venture financial firms, Party control over the Chinese executives tends to be much looser. The most conspicuous case for a long time was the China International Capital Corporation (CICC), a joint-venture investment bank established with Zhu Rongji's blessing by China Construction Bank and Morgan Stanley in 1995.⁴⁹ From the perspective of financial regulators, CICC was supposed to serve as an explorative vehicle for transferring investment-banking know-how to China's financial sector and also for testing new forms of corporate governance. CICC consumed five CEOs in only six years from 1995 to 2001. This was not due to interference by Communist Party bodies, but caused by internal conflicts between the American and Chinese managers over decision-making power and business strategies. Actually, the CFWC had no formal mandate that would have allowed direct interference in CICC's leadership. However, since the top executives of CICC's major Chinese shareholder, China Construction Bank, were appointed and supervised by the CFWC, there existed indirect channels of information and influence. But actually no evidence for active Communist Party interference in CICC's operations could be found in the course of my research.

What conclusions can be drawn from studying the cases of Minsheng Bank, Minsheng Life Insurance and the CICC? Many observers of China's financial industry foresee that progressing shifts in ownership structures may allow financial companies to gain more operational independence from the government.⁵⁰ In practice, Party bodies claim control over executive appointments even in the case of Minsheng Bank, a listed non-state corporation. This makes it doubtful to talk about private sector "controlled" stock companies⁵¹ only by looking at the distribution of shares among owners. However, frictions between the CFWC and large shareholders over executive ap-

pointments in the cases of Minsheng Bank and Minsheng Life Insurance compelled Party bodies to rethink their authoritarian appointment practices and to look for more consultative procedures that took the interests of large shareholders in choosing board members more seriously. Thus, since 2000, executive appointments in Minsheng Bank were characterized by careful ex ante consultations. And the pioneering joint-venture investment bank China International Capital Corporation (CICC) stood out by its almost completely depoliticised corporate governance structure. Such cases demonstrate that more assertive large private and foreign shareholders place constraints on the selection of senior financial executives by Party decree. The mismatch between Communist Party appointments of company managers on the one hand and a corporate governance structure oriented toward business performance on the other hand became increasingly manifest. The emerging new forms of corporate governance and the rapidly growing activity of foreign investors simply exceeded the CFWC's core capacity: the secretive and authoritarian appointment of "leadership cadres" in accordance with internal CCP directives. Thus, the accelerating entry of private and foreign investors can be seen as one main reason for formal "de-Party-isation" in financial supervision and for shifting Party oversight functions to state regulatory agencies that can deal with private and foreign investors on a legal basis and in accordance with international practice.⁵²

The Demise of the Central Financial Work Commission

Outgoing Premier Zhu Rongji gave a general and lukewarm positive assessment of the CFWC's work in February 2003 when he said that this Party body had made a contribution to deepening reforms and strengthening competitiveness in China's financial industry.⁵³ What were the main achievements and deficiencies in the CFWC's work? Judged by its political mandate, the most important achievement of the CFWC was to have pushed back the influence of local governments on the branch offices of national financial institutions.⁵⁴ But the CFWC left several deficiencies unmastered that it was set up to tackle. Most importantly, central control over bank managers' irregular activities remained very shaky. The limits of CFWC oversight were openly demonstrated by the series of high-level banking scandals that involved top executives such as Zhu Xiaohua (Everbright Group's Chairman) and Wang Xuebing (Construction Bank Chairman, former Bank of China Chairman and, earlier in his career, CEO of Bank of China's subsidiary in New York). Both men had undergone a thorough CFWC cadre appraisal before being appointed and had been supervised by the CFWC after taking their office. Actually, the blame for promoting these men to top executive positions could not be put on the CFWC, since Premier Zhu Rongji had personally recommended Zhu and Wang. However, the alertness of the CFWC's discipline inspection bodies was called into

question by the fact that the irregular management operations were investigated and prosecuted only when foreign banking watchdogs made public their own investigations against Chinese banks.⁵⁵

Another unmastered deficiency in the CFWC's work is often overlooked. Since the CFWC itself did not establish a national hierarchy of Communist Party financial work commissions under its control but left provincial, municipal and other local banks out of its power sphere, centralized supervision and personnel control remained restricted to *national* financial institutions and did not include the diverse provincial and municipal joint-stock banks and other financial companies that had sprung up since the 1990s. Local Party Committees still controlled the careers of the executives in local financial firms. And „as long as no serious scandals happen that trigger central supervisory bodies' interference, these executives will do what the local government wants them to do”, even if this means giving loans to unprofitable enterprises and dubious investment projects.⁵⁶

One of the clear strengths of the CFWC was that it served as a key coordinating and overall planning (*xietiao tongchou*) body between the various state regulatory agencies. Since autumn 2000, the CFWC had initiated joint conferences in irregular intervals so as to exchange regulatory information and to coordinate supervisory activities.⁵⁷ These conferences did not prove to be very effective in the eyes of participants. But the CFWC served as a high-level coordinating body in cases of regulatory conflicts or urgently needed innovations. When the CFWC was dissolved in March 2003, there were no arrangements for joint conferences anymore. Only in September 2003, the three regulatory commissions for banking, securities and insurance agreed on holding joint conferences and making the division of labour between them clearer. The demise of the CFWC as a superior body resulted, at least temporarily, in a much less effective coordination between state financial regulators.⁵⁸

Another objection against reducing the role of central Party organs in economic regulation has to do with lobbying activities. Several financial professionals pointed out that the effectiveness of banking supervision is being seriously weakened by intense lobbying efforts of the big four state-owned banks that are seen by banking regulators as the most powerful lobby group in China's financial industry.⁵⁹ That the Central Bank was too closely intertwined with the interests of the big four banks and could not resist their lobbying efforts was given by insiders as one of the main reasons why a separate banking regulator had to be established in China. But the CFWC, as a small and closed central Party organ, with a staff predominantly from non-financial backgrounds, was probably more isolated from the interest groups and insider dealings in the financial industry than the Banking Regulatory Commission will ever be.⁶⁰

There had been hopes among CFWC staff, that its head, Wen Jiabao, would support making the CFWC the core of a powerful unified financial supervisory body. CFWC researcher Qian Xiaolan, in a series of public statements, argued for unified financial supervision (without mention-

ing the “natural” core function of the CFWC in such an institutional arrangement) instead of a separate new banking watchdog.⁶¹ But these ambitions failed. Wen Jiabao did not stand up for the CFWC’s interests when the Chinese top leadership decided to dissolve the CFWC and establish a new Banking Regulatory Commission as a separate banking watchdog in autumn 2002. Quite the reverse, Wen Jiabao is said to have been the decisive voice in establishing the new financial supervision framework and shifting the focus of supervisory innovation to the banking system (away from the stock markets long emphasized by Zhu Rongji). Wen Jiabao apparently was not convinced by the CFWC’s potential as a supreme financial supervisor. And with the new regulatory set-up, Wen gained additional bureaucratic resources since the CBRC was vested with much broader responsibilities than the CFWC. Within Party circles it was simply stated that the CFWC had accomplished its main mission: centralizing financial supervision, pushing back local government interference and paving the way for a modernized supervisory system.⁶² In March 2003, the Communist Party oversight functions in the financial system were transferred from the CFWC to state agencies. This was also justified as a consequence of the 16th CCP congress that demanded an integrated management of assets, personnel and administrative procedures in dealing with state-owned assets.⁶³

What is the CFWC’s organizational heritage?⁶⁴ The heritage is obvious in the China Banking Regulatory Commission that was formed in March/April 2003. CFWC staff dominated organizational planning for this new regulator. And former CFWC officials also played a prominent role in preparing the first drafts of the new banking supervision law.⁶⁵ It is therefore no surprise that functions previously exercised by CFWC departments were just transferred to the new banking regulator. Of the Banking Regulatory Commission’s 16 departments, 5 had been transferred out of the Central Bank and 11 out of the CFWC.⁶⁶ Two top officials of the CFWC were included in the banking regulator’s leadership as Vice-Chairmen. Yan Haiwang (formerly CFWC Executive Deputy Secretary) was appointed full Party Secretary but ranked in second place after Chairman Liu Mingkang. And the former Director of Zhu Rongji’s Prime Ministerial Office, Li Wei, who had been transferred to the position of a Deputy Secretary (i.e. vice head) shortly before the CFWC’s dissolution, was installed in the Banking Regulatory Commission as one of the four Vice-Chairmen. Moreover, the Banking Regulatory Commission took over the Supervisory Board appointment and report system that had been established by the CFWC. Therefore the old dilemmas in Supervisory Board work persisted. Equally important, the key issue what state body is representing the owners role in dealing with state-owned financial companies such as the big four commercial banks was not clarified after the Banking Regulatory Commission’s creation. In contrast to the State Assets Commission that was explicitly created to represent and safeguard state ownership in industrial and other non-financial state enterprises, neither the Banking Regulatory Commission nor the Ministry of

Finance have been given the role of owners in national state banks.⁶⁷ The Banking Regulatory Commission therefore had to deal with many dilemmas that had already characterized the CFWC's work.

Redefining Communist Party Control

Soon after the 16th CCP congress, the new top decision-makers for the financial sector, Wen Jiabao and Huang Ju (who was in charge of implementing financial supervision restructuring in 2002/2003) decided to transfer personnel authority over the leadership bodies of the Central Bank and the regulatory commissions for banking, securities and insurance businesses as well as over ten commercial financial institutions to the CCP Central Organization Department. Thus, this department benefited from the CFWC's demise and extended its cadre management in the financial industry. Executives in the other national financial institutions that were previously subordinate to CFWC personnel authority came under the purview of the three state regulatory commissions' Party Committees and their organization/personnel departments (see chart 2).

Chart 2

Communist Party Control Over Senior Executives in China's Financial System:

Division of Labour in Centralized Cadre Management after the CFWC's dissolution in March 2003

CCP Central Organization Department

- National state supervisory organs (Central Bank, Banking Regulatory Commission, Securities Regulatory Commission, Insurance Regulatory Commission)
- Ten national financial companies under central administration (big four national commercial banks, three policy banks, Bank of Communications, Everbright Group, CITIC Group)

Central Bank Party Committee/Organization Department

- Regional branch offices of the Central Bank

China Banking Regulatory Commission Party Committee/Organization Department

- Four asset management corporations (Huarong, Changcheng, Dongfang, Xinda)
- Merchants Bank and Minsheng Bank
- Chung Mei Trust & Investment and Government Securities Depository Trust & Clearing Co.

China Securities Regulatory Commission Party Committee/Organization Department

- Three securities companies (Galaxy, Minzu, Sci-Tech)
- individual securities companies undergoing investigation and restructuring
- stock exchanges; futures exchanges

China Insurance Regulatory Commission Party Committee/Organization Department

- Six insurance companies (People's Insurance, China Life Insurance, China Reinsurance, China Export & Credit Insurance, China Insurance Group, Minsheng Life Insurance)

Sources: Interviews with regulatory officials and *Zhongguo zhengquan bao*, April 8, 2003.

The core principle of CCP appointment of financial executives was preserved. This triggered some sharp public criticism. Citing the high-level corruption scandals surrounding top bankers, Caijing

Magazine's editor in chief, Hu Shuli argued that China's banks needed politically independent CEOs whose career should be based on verifiable business performance, not on political criteria. The separation of Party from government work and of government from financial assets in the banking system (*zheng zi fenkai*) could only be achieved through reforming the system of executive appointment.⁶⁸ But the fundamental deficiencies remained: Appointments of bank managers by Party bodies create a constellation in which managers are not responsible to their bank but primarily to the appointing bodies or even to personal patrons. The authority of Party-appointed managers meets with no effective constraints within the firms since they are seen as externally empowered. In addition, government interferences in management decisions are legitimated and irrefutable under the current appointment practice.⁶⁹

There were some outspoken reform commitments by leaders of the Banking Regulatory Commission and State Assets Commission, but no breakthrough in the management of cadres in state-controlled firms by spring 2004.⁷⁰ Control over senior executives is one key pillar of the current political system, and China's rulers naturally are not inclined to play around with this pillar. Besides, those cadres that have gone through a conventional Party career (and this type of cadres is concentrated in CCP Organization Departments) fiercely resist "helicopter" executives who are promoted to the top and bypass them on the basis of their business performance, make more money and gain more fame than traditional Party cadres. It really is the contention over personnel authority that "shows how old-style political considerations remain central"⁷¹ in China's political economy.

However, there were some significant modifications in the exercise of Party authority *within* newly established state bodies such as the Banking Regulatory Commission and the State Assets Commission. Compared to the usual practice to appoint the same person as Minister *and* Party Secretary of Ministry-level state organs, a striking new arrangement was introduced in the Banking Regulatory Commission and State Assets Commission: The administrative heads in these two young state organs do *not* serve concurrently as Party Secretaries, yet are called on the official web sites "first persons of responsibility". Naughton interprets this as the outcome of a "balancing act" between Communist Party and State Council interests.⁷² But according to interviews with regulatory officials, the unconventional leadership arrangements in the Banking Regulatory Commission and State Assets Commission were indeed introduced as an experiment in reforming the division of labor within state organs. Whereas the primary role in administrative decision-making was now clearly given to the administrative head, the Party Secretary was supposed to be the specialist for personnel, propaganda and disciplinary matters. The Party Secretary still took part in administrative decision-making but was only the "number two" in this respect. Whether this sort of leadership arrangement will be extended to regular ministries was judged as uncertain. But the tendency to see "Party Secretary work" as an important yet specialized function, not as implying

overall decision-making authority, was taken more seriously in the banking and state assets supervisory bodies.

Another remarkable innovation came with the establishment of the Banking Regulatory Commission. The CFWC had no legal basis, since it was founded by way of unpublished Communist Party documents, not by National People's Congress (NPC) legislation or by State Council regulation. But in the Banking Regulatory Commission's case, the State Council and the NPC put a lot of effort into giving it a solid legal basis from the very beginning. In April 2003, when a new banking supervision law only was under discussion, the NPC Standing Committee provisionally empowered the Banking Regulatory Commission to take over the supervisory functions from the Central Bank.⁷³ And in autumn 2003, the NPC standing committee wrote detailed provisions on the mandate and powers of the new banking watchdog as well as clear qualification standards for banking supervisors into the draft of the banking supervision law.⁷⁴ In contrast to the CFWC, China's new banking watchdog will be subject to much stricter rules and more transparent political oversight by the NPC.

Conclusions

In China's system of financial regulation, conflicting mandates that the central political principal (the Communist Party's top leadership) wants its administrative agents (the financial regulators) to fulfil, are at the heart of persisting deficiencies. On the one hand, China's political leaders seek to gain credibility in the construction of financial markets by establishing a regulatory system that is in accordance with international practices. On the other hand, the political leaders are determined to maintain political control over regulatory bodies and financial firms by means of Communist Party cadre appointment and supervision. Party bodies claim control over executive appointments even if the majority of shareholders in financial firms comes from the private sector as in the case of Minsheng Bank. Managers' selection and administrative fixes by Party fiat continue to aggravate the political bias in allocating capital and the manipulative potential inherent in the financial system.

The rise and demise of the CFWC is an outstanding example for the innovative potential and also for the limits of Communist Party institutional engineering in China's economy. By establishing the CFWC, the Zhu Rongji government used Leninist political means to bolster financial market integrity and reform. Financial regulation and supervision were indeed centralized within a short time and made much more uniform than before. But the hierarchical institutions of Party control were incapable of introducing market-based incentive structures for financial executives and failed

to suppress financial mismanagement and corruption. Moreover, they caused frictions with the emerging new forms of corporate governance and the increasing activity of foreign investors.

Solnick concluded in his study of the breakdown of hierarchies in the late Soviet Union that Communist Party principals, in order to retrieve political authority and establish credible rules for a transitional economy, must rigorously discipline opportunistic agents and at the same time consistently clarify property rights.⁷⁵ The Zhu Rongji government concentrated on restoring hierarchical discipline. But it failed in clarifying property rights and raising efficiency in the allocation of capital through the financial system. The new Wen Jiabao government, in its search for regulatory credibility and international investment, tried a different approach to financial sector reform. It redefined the role of Party bodies in economic regulation and incorporated the CFWC's functions and personnel in state regulatory agencies. This marked a step away from the old practice of "the Party taking the place of the government" (*yi dang dai zheng*). By concentrating supervisory and rule-making powers in state organs, the leading role of the Party was more clearly focused on cadre management and withdrawn from day-to-day administrative activity.

But has China's central economic administration really become less dependent on Communist Party authority and coherence? Regulatory officials frequently mentioned "coordination and overall planning" (*xietiao tongchou*) as the most important and actually indispensable function of Communist Party bodies in the highly fragmented environment of rivalling state agencies. Some reiterated Olson's proposition (without having ever heard about it) that central Communist Party organs, representing "encompassing interests" and working under the immediate attention of the top leadership, are less likely to fall into the trap of regulatory capture by powerful interest groups than specialized administrative bodies. From this perspective, the dissolution of the CFWC may have left a void.

Notes

- ¹ Cf. Susan Shirk, *The Political Logic of Economic Reform in China* (Berkeley: University of California Press, 1993), pp.22, 348-349; Yasheng Huang, *Inflation and Investment Controls in China* (New York: Cambridge University Press, 1996), pp.322-324. In this article, Leninist institutions include the pervasive presence and elaborate hierarchy of Party organs in administrative bodies and state-controlled firms, rigid rules of cadre surveillance and recruitment as well as methods of extra-judicial disciplinary supervision.
- ² Steven Solnick, *Stealing the State: Control and Collapse in Soviet Institutions* (Cambridge: Harvard University Press, 1999), pp.3, 29; Mancur Olson, *Power and Prosperity: Outgrowing Communist and Capitalist Dictatorships* (New York: Basic Books, 2000), pp.142-154.
- ³ Huang, *Inflation and Investment Controls*, pp.324-325.
- ⁴ Victor Shih, "Authoritarian Power Imperatives and the Chinese Banks", paper presented at the American Political Science Association's Annual Conference, San Francisco, August/September 2001, pp.6, 13.
- ⁵ Cf. Sun Ming, "Jinrong dabianju de huali qianzou" (Magnificent prelude to a comprehensive transformation of finance), *21 shiji jingji baodao*, March 10, 2003.
- ⁶ Victor Shih, *Not Quite a Miracle: Factional Conflict, Inflationary Cycles, and Non-Performing Loans in China* (unpublished dissertation, Harvard University, 2003), passim, esp. pp.28-29.
- ⁷ Cf. Peter Evans, "The Eclipse of the State?", *World Politics*, Vol.50, No.1, October 1997, pp.62-87, esp. pp.75-76, who raises powerful arguments against overstretching the concept "rent-seeking".
- ⁸ This breakdown is the main theme of Solnick's instructive book, *Stealing the State*, on Soviet disintegration.
- ⁹ The issue of policy decisiveness is treated by Andrew MacIntyre, "Political Institutions and the Economic Crisis in Thailand and Indonesia", and Barry Naughton, "China: Domestic Restructuring and a New Role in Asia", both in T.J. Pempel (ed.), *The Politics of the Asian Economic Crisis* (Ithaca: Cornell University Press, 1999), pp.145-146 and p.206, respectively.
- ¹⁰ Olson, *Power and Prosperity*, pp.111, 135, 143-153. Hereby, the Communist Party Centre is not characterized as a "benign dictator". Olson explicitly points to Stalinist purges as a brutal, but effective method to strengthen centralized rule and control of economic resources without "benign" considerations for broad income growth etc.
- ¹¹ For South Korea's efforts at financial re-regulation see Linda Weiss, "Guiding Globalisation in East Asia: New Roles for Old Developmental States", in: Weiss (ed.), *States in the Global Economy: Bringing Domestic Institutions Back In* (Cambridge: Cambridge University Press, 2003), pp.245-270.
- ¹² Shirk, *Political Logic*, p.334 and p.347.
- ¹³ Cf. Bruce J. Dickson, *Democratization in China and Taiwan: The Adaptability of Leninist Parties* (Oxford: Oxford University Press, 1997), pp.1-33, who distinguishes between "efficient adaptation" initiated by technocrats for economic reasons and "responsive adaptation" driven by democratic reformers for achieving fundamental political reform. My study is clearly confined to issues of "efficient adaptation".
- ¹⁴ Cf. Shih, *Not Quite a Miracle*, chapter 8.
- ¹⁵ Whereas the CFWC was a specialized body assigned to take charge of Communist Party affairs in one economic sector, CFELG includes the central government's most senior decision-makers. CFELG itself is convened only two to four times a year but its permanent office serves as the key body in the Party Centre for coordinating and guiding overall economic policy-making by requesting research reports, organising consultations, formulating policy papers and drafting comprehensive development plans. Information based on interviews. See also Zou Ximing, *Zhonggong zhongyang jigou yange shilu (A Chronicle of the Evolution of CCP Central Organs)* (Beijing: Zhongguo dang'an chubanshe, 1998), pp.206-207.
- ¹⁶ Tian Junrong, "Zengjia huobi gongying, fangfan jinrong fengxian" (Increasing money supply, preventing financial risk), *Renmin ribao*, January 13, 1999.
- ¹⁷ Interviews with regulatory officials in Beijing, November 2000 and October 2002.
- ¹⁸ „Chen Yaoxian tichu nuli kaichuang zhengguan xitong Dangjian xin jumian (Chen Yaoxian demands to work hard for initiating a new phase of Party construction in the securities regulatory system), *Shangshi gongsi*, April 1999, No. 110.
- ¹⁹ Central Financial Work Commission, Organization Department (ed.), *Dang de zuzhi gongzuo shiyong shouce (A Practical Handbook for CCP Organizational work)* (Beijing: Zhonggong zhongyang dangxiao, 1999), pp.2-4. For an inside account of the Central Bank's reorganization, see Kong Zhangshen, „Yanghang kuasheng she fenheng de qianqian houhou" (Prelude and aftermath of establishing cross-provincial Central Bank branches), *Dadi*, No.2, 1999.
- ²⁰ Key Documents on the tasks of the CFWC can be found in CCP Central Financial Work Commission, *A Practical Handbook*. The most comprehensive source on the reorganization of financial supervision is: CCP Central Financial

Discipline Inspection Work Commission (ed.), *Jinrong xitong zhifa zhiji wenjian huibian* (A Collection of Documents on Law and Discipline Enforcement in the Financial System), Vol. 4-7 (Beijing: Zhongguo jinrong chubanshe, 2000). The CFWC also edited a number of handbooks for Party work such as *Chuzhi lingdao tizhi xia jinrong xitong Dangwei shuji gongzuo quanshu* (Compendium on the Work of Party Committee Secretaries in the Financial System under the Vertical Leadership Structure) (Beijing: Dangdai Zhongguo chubanshe, 1999).

²¹ See Central Financial Work Commission, *A Practical Handbook*, p.200.

²² Interview with regulatory official, Beijing, December 2003; Ling Huawei, “Yinjianhui fuzhong qibu” (The CBRC starts with a heavy burden), *Caijing*, April 5, 2003.

²³ The building is said to have cost 300 Mio. Yuan RMB. It was taken over by the Banking Regulatory Commission after the dissolution of the CFWC as one of two office addresses of the banking regulator.

²⁴ Interview with regulatory official, Beijing, January 2002. For general information on central leading groups, see Carol Lee Hamrin, “The Party Leadership System”, in Kenneth Lieberthal and David Lampton (eds.), *Bureaucracy, Politics, and Decision Making in Post-Mao China* (Berkeley: University of California Press, 1992), pp.95-124; Zou Ximing, *Zhonggong zhongyang jigou*. For the key coordinating role of *mishuzhang* see Li Wei, *The Chinese Staff System* (Berkeley: Institute of East Asian Studies, 1994).

²⁵ Bruce Gilley and David Murphy, “Why China Needs A Real Central Bank”, *Far Eastern Economic Review*, May 24, 2001. The authors’ key point – that the CFWC usurped all major Central Bank functions – was rejected as an heavy exaggeration by all financial system insiders interviewed for this study. Yet ironically, the article by Gilley and Murphy was rather influential in China’s policy-making circles: Shortly after the article appeared, apparently so as to boost the political standing of the Central Bank’s governor, Dai Xianglong was appointed Deputy Secretary of the CFWC. And CFWC Executive Deputy Secretary Yan Haiwang and the CFWC itself took a considerably lower profile thereafter. Two interviewees with a thorough knowledge of the CFWC’s inner workings saw a direct correlation between the *Far Eastern Economic Review* article and this institutional rearrangement. The quick official response shows how sensitive Chinese politicians have become to external criticism that affects the credibility of China’s financial market institutions.

²⁶ Interview with regulatory official, Shanghai, October 2002.

²⁷ See “Wen Jiabao zai Zhongyang jinrong gongwei juxing quanwei kuoda huiyi shang jiang hua” (Wen Jiabao gives a speech at an enlarged plenary conference held by the CFWC), *Jingji ribao*, July 25, 2000.

²⁸ *Zhongguo jinrong nianjian 2002* (China Financial Yearbook) (Beijing: Zhongguo jinrong chubanshe, 2003), pp.14-16.

²⁹ Interviews with regulatory officials in Beijing and Shanghai, January and October 2002.

³⁰ For a major reshuffle see “Woguo bufen jinrong jigou zhuyao lingdao ganbu jiaoliu tiaozheng” (Reshuffles and adjustments among major leadership cadres in some financial institutions of our country), *Renmin ribao*, February 24, 2000.

³¹ Interviews with regulatory officials, Beijing, January 2002 and December 2003; see also Yi Qing, “Yanghang jigou gaige neimu” (The inside story of the Central Bank’s organizational reform), *Caijing*, December 1, 1998.

³² See Central Financial Work Commission, *A Practical Handbook*, pp.292-294.

³³ Shih, *Not Quite a Miracle*, p.82.

³⁴ Interview with regulatory official, Beijing, December 2003; see also the corresponding figure for senior financial cadres who were subject to CFWC discipline inspections in *Zhongguo jinrong nianjian 2001*, p.12.

³⁵ *Zhongguo jinrong nianjian 2001*, pp.11-13.

³⁶ See speech given by Zeng Qinghong at a national conference of CCP organization department heads, reprinted in *Renmin Ribao*, January 10, 2000.

³⁷ Central Financial Work Commission, *A Practical Handbook*, p.202.

³⁸ “Si da guoyou yinhang rezhao ‘haiguipai’ jiameng” (The four big state-owned banks intensively recruit returnees from overseas to join forces), *Xinhua ribao*, Nanjing, October 9, 2002.

³⁹ The case studies contained in this section are not included in the *China Quarterly* article, due to space limitations.

⁴⁰ Central Financial Work Commission, *A Practical Handbook*, p.200.

⁴¹ Central Financial Discipline Inspection Work Commission, *A Collection of Documents*, Vol. 6b, pp.775-778.

⁴² The most important cases were Zhongjingkai Trust and Investment, Galaxy Securities and, for a brief period, CITIC Holding. For CITIC’s case see “Wang Jun jiedu Zhongxin konggu” (Wang Jun explains CITIC Holding), *Zhonghua gongshang shibao*, March 10, 2003.

⁴³ Actually, the CFWC sent its Supervisory Boards to 19 financial institutions, since only one Supervisory Board supervised two commercial financial institutions in the cases of CITIC and Everbright Trust and Investment, People’s Insurance and China Reinsurance, China Import & Export Bank and China Export & Credit Insurance. Cf. Wang Shuo,

“Jigou gaige daibian” (Organizational reforms have yet to be refined), *Caijing*, March 5, 2003, and Ling Huawei, “Yinjianhui fuzhong qibu” (The CBRC starts with a heavy burden), *Caijing*, April 5, 2003.

⁴⁴ Interview with securities regulatory officials in Beijing and Shanghai, January and September/October 2002; *Zhongguo jinrong nianjian 2001*, p.12. A handbook on Supervisory Board work that also points to inherent problems is Xu Weiguo (ed.), *Zhongguo gufenzhi qiye jianshi shidian (The supervisors' dictionary of Chinese stock companies)* (Changsha: Hunan renmin chubanshe, 2000).

⁴⁵ *Zhongguo jinrong nianjian 2002*, p.15.

⁴⁶ Cf. the open remark on the CFWC's role in a Minsheng Bank reshuffle in *Zhongguo jinrong nianjian 2001*, p.11. During Minsheng Bank's public relations activities, representatives of the CFWC often took part shoulder to shoulder with representatives of the Federation of Industry and Commerce, Minsheng Bank's main political “patron”. See Xu Yali, “Minsheng yinhang shubaiming yuangong jiti xuanshi” (Several hundred employees of Minsheng Bank make a collective pledge), *Jinrong shibao*, October 25, 2002.

⁴⁷ Interview with a financial consultant, Shanghai, March 2003. See also Li Qing, “Bianshi Minsheng Yinhang” (Identifying Minsheng Bank), *Caijing*, December 5, 2000.

⁴⁸ Interviews in Beijing and Shanghai, March 2003. Parts of the story are documented in Li Junling, “Quanguo gongshanglian founen mou sili” (The FIC denies pursuing selfish interests), *21 shiji jingji baodao*, December 12, 2001; Zhang Chunhui, “Minsheng renshou po ‘ke’ er chu (Minsheng Life comes out of its ‘shell’), *Guoji jinrong bao*, June 19, 2003.

⁴⁹ Interviews with two investment bankers, Shanghai, January 2002. For CICC's organizational peculiarities see Stephen Green, *China's Stockmarket: A Guide to its Progress, Players and Prospects* (London: Economist Books, 2003), pp. 202-203; “Zhongjin huo A gu jiaoyi zige” (CICC obtains rights to trade A shares), *21 shiji jingji baodao*, January 16, 2002.

⁵⁰ Cf. for instance, Green, *China's Stockmarket*, pp.82-83.

⁵¹ Carl E. Walter and Fraser J.T. Howie, *Privatizing China: The Stock Markets and their Role in Corporate Reform* (Singapore: John Wiley & Sons, 2003), p.206.

⁵² For an analysis of this trend on the subnational level, see my forthcoming study “Local Government Interference in Shanghai's Financial Industry”.

⁵³ “Zhu Rongji: jin yi bu wanshan guoqi he guoyou zichan jiandu guanli” (Zhu Rongji: Go further with perfecting the supervision and regulation of state enterprises and state-owned assets), Xinhua News Agency, February 23, 2003.

⁵⁴ Centralized leadership through a hierarchy of Party Committees, set up by the CFWC, proved to be more effective for establishing central control than the Central Bank redistricting in nine large super-regions. The creation of these super-regions led to major confusion in bank monitoring as was made clear by many interviewees. The difficulties in establishing effective banking supervisory bodies on the local level persisted after the formation of the CBRC. See Wu Yushan, “Dishi yinjian fenju luxu dengchang” (Banking supervision branch offices in district-level cities are coming on stage one after another), *21 shiji jingji baodao*, December 15, 2003.

⁵⁵ Cf. *Financial Times*, January 16, 2002, and December 10, 2003.

⁵⁶ Interview with investment banker, Shanghai, October 2002. See also my forthcoming study “Local Government Interference in Shanghai's Financial Industry: Assessing the Limitations of National Financial Regulation in China”

⁵⁷ “Woguo jinrong san da jianguan bumen jianli jianguan lianxi huiyi zhidu” (The three big financial regulatory agencies of our country establish a system of joint conferences on regulatory issues), Xinhua News Agency, September 4, 2000.

⁵⁸ In the debates about the draft laws on banking supervision and the Central Bank, the need for more effective coordination triggered individual demands for reestablishing the Central Bank as a “super supervisory body”. Cf. Wu Xiaoliang, “Sanda yinhangfa ‘kunbang shangshi’” (The three big banking laws are ‘brought to the market as a bundle’), *Caijing*, December 20, 2003.

⁵⁹ Cf. Ning Nan, “Zhongguo jinrong gaoceng zouma huanjiang de taiqian muhou” (Before and behind the scenes of the high-level reshuffle in China's financial sector), *Shangwu zhoukan*, February 1, 2003.

⁶⁰ This judgement was given by several financial regulators interviewed for this study.

⁶¹ See Qian Xiaolan, “Jianli zhongguo tongyi de jinrong jianguan tizhi de gouxiang” (A blueprint for establishing a unified structure for financial supervision and regulation in China), *Caijing kexue*, No.1, 2002.

⁶² Interviews with regulatory officials, Beijing, December 2003. For a similar argumentation see Ning Nan, “Zhongguo jinrong gaoceng”.

⁶³ Hu Shuli, “Jinrong zichan guanli, yinjianhui yu shencengci gaige” (The management of financial assets, the CBRC and profound reforms), *Caijing*, March 5, 2003.

⁶⁴ Already in November 2002, Wen Jiabao initiated the establishment of a new Central Leading Group on Financial Safety that was designed not as a substitute for the dissolved CFWC, but as a supreme crisis management body. In contrast to the CFWC, this leading group is not in charge of cadre management or overall supervision in China's financial system but is supposed to serve as the key decision-making body in case of an acute financial crisis.

⁶⁵ Sun Ming, "Guowuyuan ni 'tebie fangxing' yinhang hunye jingying" (The State Council plans 'special clearance' for mixed banking operations), *21 shiji jingji baodao*, August 11, 2003.

⁶⁶ "Yinjianhui guanli jiagou fuxian" (The CBRC's administrative set-up comes to light), *Zhongguo zhengquan bao*, April 8, 2003.

⁶⁷ For discussions of this issue, see Sun Ming, "'Jinrong guoziwei' chuxing zhaxian?" (Is an embryonic form of a 'commission for financial state-owned assets' suddenly appearing?), *21 shiji jingji baodao*, January 12, 2004.

⁶⁸ Hu Shuli, "Jigou, renshi bianqian yu shengceng gaige" (The transition of institutions and personnel affairs and the issue of profound reform), *Caijing*, January 20, 2003.

⁶⁹ Liu Caina, "Yinhang hangzhang gai you shei renming?" (Who should be in charge of appointing the directors of banks?), *Zhonghua gongshang shibao*, June 25, 2003.

⁷⁰ See "Guoziwei de guoqi xin buzhen" (The State Assets Commission's new marshalling of state-owned enterprises), *Caijing*, August 5, 2003; "Li Yizhong zonglun guozi gaige" (Li Yizhong elaborates on state assets reforms), *Caijing*, December 20, 2003.

⁷¹ Barry Naughton, "The State Assets Commission: A Powerful New Government Body", *China Leadership Monitor*, No.8, Fall 2003, <http://www.chinaleadershipmonitor.org/20034/bn.pdf>, p.1.

⁷² *Ibid.*, p.8.

⁷³ "Renda changweihui guanyu Yinjianhui luxing yuan Yanghang jianguan zhize de jue ding" (Decision of the NPC's Standing Committee concerning the CBRC's exercise of supervisory duties originally exercised by the Central Bank), Xinhua News Agency, April 26, 2003.

⁷⁴ Sun Ming, "Quanguo renda tichu san da yidian" (The NPC raises three big questionable points), *21 shiji jingji baodao*, September 3, 2003; Zhang Yongtao, "Yinhang lifa hai xuyao geng jinyibu" (Banking legislation must go even further), *Caijing*, December 20, 2003.

⁷⁵ Solnick, *Stealing the State*, p.243.