The Rise of the "Shareholding State": Financialization of Economic Management in China

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Abstract

Using the rise of the Chinese "shareholding state" as an example, this paper attempts to extend the study of financialization from the economy to the state. It documents a historical and institutional process in which the Chinese state refashioned itself as a shareholder and institutional investor in the economy and resorted to a set of financial means (in contrast to fiscal means) to manage its ownership, assets, and public investments. I focus on the emergence and expansion of the state asset management system in the past decade. Against this background, I show that an array of new corporate actors started to serve as a financial platform for the Chinese state to centralize capital control and finance public investment. I argue that this transformation speaks to the Chinese policy elites' profound effort in modernizing China's state-economy relations without conceding control over the economy. As a consequence, such financialization of state-economy relations changed the means of evaluating and financing industrial investments and industrial policies. Overall, by uncovering the mutually leveraging effect between sovereign power and finance which underpins the expansion of these state asset management bodies, my study illustrates a politically endogenous model of explaining the institutional route to the rise of finance in state-directed economies.

Key words: financialization, shareholding state, state asset management, sovereignty

Introduction

Since the early 2000s, the exponential growth of financial markets and subsequent crises have spurred scholarly interests from a variety of disciplines which focus on the phenomenon of "financialization" (Lazonick and O'Sullivan, 2000; Martin, 2002; Krippner, 2005, 2011; Froud, Johal, Leaver and Williams, 2006; Seabrooke, 2006; Davis, 2009; Schwartz, 2012; Prasad, 2012; Lin and Tomaskovic-Devey, 2013; Zwan, 2014). Definition and measurement of financialization vary, but the "object" that is being "financialized" predominantly refers to either economies or societies. For example, Greta Krippner's flagship research in this field measures financialization as both the growth of financial sector profits and the growing reliance of nonfinancial firms on financial activities in economies (Krippner, 2005; 2011: p28-29). Gerald Davis discusses the emergence of "portfolio societies" within financial capitalism, in which the investment idiom becomes a dominant way of understanding individuals' place in society (Davis, 2009: 6-7). The current literature has left out the *state* as an object of financialization. States have invariably been portrayed as suppliers of regulation (and deregulation) policies who facilitate the financialization of economies (Fligstein, 2009; Carruthers and Kim, 2011). Little attention has been paid to how states themselves can be actors in the financial market and how such activities will change the way states manage economies and conduct public investment.

In addition, most of our existing knowledge on financialization has been drawn from case studies of liberalized and developed economies (Jürgens 2000; Goyer 2006; Correa,Vidal and Marshall 2012). Much less research has been done on less liberalized and developing ones; existing research has called our attention to the role of the state in the development of financial markets and provision of financial products (Akkemik and Özen, 2013). In this regard, the world's second largest economy—China—presents an extreme statist case in which the state not only "directs" but "owns" the economy. State-controlled firms hold one half of total assets, produce one third of industrial outputs, and hire one fifth of China's employees.[1] Although the Chinese economy is not highly financialized[2], however, financialization has become a growing method for economic management of the state. A narrow focus on financialization of the economy per se incorrectly presumes that the state and the market can be neatly separated, especially in an economy with a strong presence of state ownership and control. Given China's ostensible underdeveloped and underliberalized financial markets, the Chinese case has been left nearly untouched by the literature on financialization.

I define financialization of economic management in the Chinese context as a process in which the state increasingly refashions itself as a shareholder and institutional investor in the economy and resorts to a set of financial means (financial market, financial indicators, and financial instruments), in contrast to fiscal means, to manage its

[1] Data from "OECD Economic Surveys: China" published in March 2013 and *The Yearbook of Industrial Economy in China, 2012,* p19

[2] For example, market capitalization of listed companies in China is 44.9% of GDP in 2012, this number for the US in the same year is 114.9%. Gross value added of the financial sector in China is 5%, this number for the US is above 8%. Bank capital to asset ratio is 6.3 in China and 11.8% in the US. Sources: World bank

ownership, assets, and public investments. The "shareholding state" and its state asset management bodies are the central actors in financializing the state/economy relations. State asset management entities emerged to represent the shareholding state and corporatized the management of massive state assets. Because of their easy access to financial licenses and state-backed cheap credits, these state asset management entities morphed into institutional banks and financing vehicles for state-led investment. This paper is a historical institutional account of the causes and consequences of the emergence of China's state asset management system.

By explaining why the state asset management institutions proliferated so rapidly, I intend to disclose a mutually reinforcing effect between sovereign power and financialization. At the core of this underpinning relationship, the sovereign (or semi-sovereign) status of state asset management entities granted them government guarantees and cheap cost of borrowing which encouraged debt and leveraged financing. The interlocking institutional ties and interests among these state actors constructed the institutional foundation of this kind of endogenous "sovereign risk". Researchers can view the Chinese case as a controlled experiment in which the state acts as a variable that can affect the financial market parameter, including the composition of actors, the evaluation of risk, the structure of products, etc.

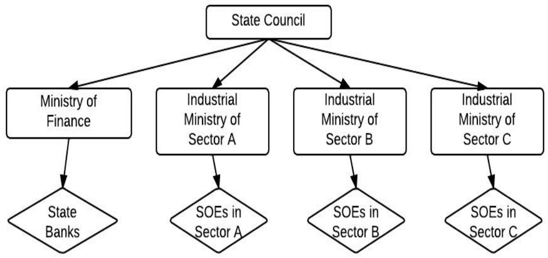
In the following space, I will first discuss recent literature on the rise of finance, briefly introduce the significance of state asset management bodies in China, and explain the merits of a historical-institutional approach to studying this question. I then proceed to date the origin of financialization to the 1990s when shareholding reform of State-owned enterprises (SOEs) began. I foreground the instrumental role that the "Integrated Reform School" played in discovering the financial mechanism of state control when conducting shareholding reform. I then map the emergence of the organizational field of state asset management and explain how these initially passive owners transformed into active institutional investors. The second part of the paper assesses the economic and political impact of financialization on industrial investment. It argues that industrial investments under the financial model by state asset management platforms became de-sectorialized and depoliticized and fixed asset investments were increasingly financed by structured products such as securitization. The last part of the paper concludes and discusses the general implication of the Chinese case.

State and Financialization: Introducing the Chinese case

Politically sensitive research on financialization has paid considerable attention to the role of the state (Davis, 2009; Fligstein, 2009; Krippner, 2012). Through regulations and maneuvering market levers such as interest rates and exchange rates, states aimed to shape market outcome and create political effects. However, under existing theoretical frameworks that are tailored towards explaining liberal economies, states are categorized as external policy makers rather than direct participants of the financial market. A few studies are beginning to redress this omission and explore the endogenous role of the state in the development of financial markets (Davis, 2009:154-190; Pacewicz 2012; Quinn, 2010, 2014). Scholars have shown that states can be active participants in financial markets and even forefront innovators of financialization. In coping with budget deficits, both U.S. federal and local governments invented and mobilized financial technologies to finance public welfare programs and local development projects (Pacewicz, 2012; Quinn, 2010, 2014). Government-sponsored Fannie Mae and Freddie Mac housing programs owe their creation to the U.S.'s longstanding economic political tradition of relying on credit to individualize public welfare (Prasad, 2012; Quinn, 2014). The Japanese Liberal Democratic Party from the 1930s until the 1990s used a Fiscal Investment Loan Plan to avoid budget constraints and to mobilize credit for financing public investments and the welfare state (Park, 2011). Such practices carried far-reaching political consequences as they have depoliticized what was previously democratically determined budgets.

Even though a financially entrepreneurial state is neither unique to the Chinese context nor historically novel, the Chinese case is still striking for its extreme magnitude and the deep intertwining of state and finance. The financialization of public investment in China goes far beyond individual programs and corporations but involves the whole state asset management system in supervising state ownership and state investment. In 2003, the State-owned Asset Supervision and Administration Commission (SASAC) was established to provide centralized supervision of state assets and state-owned enterprises (SOEs) in non-financial industries. In only a decade, a mushrooming class of holding corporations was created to serve as the new "institutional owners" of SOEs and state-owned commercial banks on behalf of the state. Within this class of state asset management companies are the state-owned financial holding company, such as Central Huijin. Created only in 2003, Huijin has grown its asset to nearly 23 times that of U.S.'s largest financial holding company—JPMorgan Chase & CO. Other corporate actors claiming equity interests in state assets include the Chinese Development Investment Corporation (established in 1995), Big Four State Asset Management Firms (established in 1999), China Investment Corporations (established in 2007), China Development Bank (corporatized in 2008), China Guoxin Corporations (2010), and others. A 2008 national business census showed that nationwide, over 600 companies were registered under the category of "state asset management".

Existing research on China's asset management companies is merely interested in these companies' overseas investment and provide only vignettes of individual corporations (Eaton and Zhang, 2010; Shih, 2009). It fails to treat these corporations as a class of actors belonging to a concerted movement in restructuring state ownership. State asset management firms are neither traditional SOEs nor state banks. Despite the variety of their corporate titles, I argue that these companies occupy a unique intermediate position within the state structure (between the abstract shareholder state and SOEs). They play the same function of reorganizing the state's asset (bundle and invest in them as shares), and possess similar advantage points in the financial system (equity investment and debt financing). Their emergence has nudged the state's role from one of domination through administrative directives and supervision to that of management through shareholding. Figure 1 and 2 give a taste of the different positions in the state structures that SOEs and state banks occupied in the 1980s and at present.



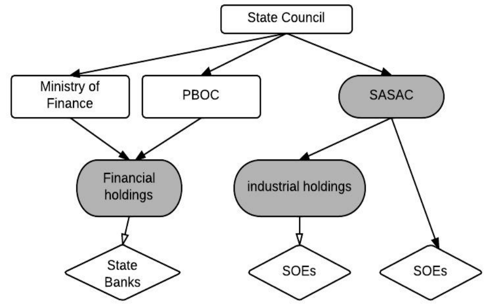


Figure 1 (left): Positions of SOEs and state-owned commercial banks in the state structure in the 1980s before industrial ministries were abolished (black arrows represent administrative and supervising ties). Note that industrial ministries and SOEs under their supervision were divided by sectors.

Figure 2 (right): Positions of SOEs and state-owned commercial banks in the state structure at present. Note that state asset management bodies (presented in oval shapes) constitute the intermediate structure that closed off sectorial divisions. White arrows represent ties of ownership.

The financialization process in China is an institutionally rich process. It involved constructing new sets of principals and agents as well as reorganized existing ones. State asset management companies were created to serve as agents representing the socialist state owner and to discipline the SOE managers. However, these new agents soon took advantage of their statist status and acquired corporate lives of their own. The principal-agent relations were further complicated when bureaucratic agencies, such as Ministry of Finance and the Central Bank, understood the benefits of creating their own agents in their feud to win control of state assets. Thus, the perceived positional advantage of these corporate agents drew new bureaucratic principals into the enterprise of controlling the economy beyond regulatory means. This paper attempts to sort out the causal chains in this historical process. A historical institutional approach has considerable explanatory merits for studying organizational changes in a context of fast-paced economic reform and institutional transformation in that it does not assume any static incentive structures of the actors or any unchanging institutional rules. My historical institutional approach commits to attending to the historical shifts of the composition of organizational actors, the institutional contexts they are embedded in, as well as critical feedback mechanisms, learning effect and accumulative advantages which are all commonly observed in yet-to-be institutionalized reform environment. Without paying attention to the changing macro and meso-level factors, any micro-studies of corporate incentives and behaviors will likely be ill-informed.

This paper also hopes to advance our existing understanding of the Chinese state and China's ongoing economic reform. Scholars have described the Chinese "entrepreneurial state" (Duckett, 2009), "developmental state" (Xia, 2009), and "regulatory state" (Yang, 2006). Little research has attempted to theorize a new set of practices of the Chinese state as a result of the recent corporatization reform. To fill this gap, this paper calls into conceptual existence of the Chinese "shareholding state". I will show that the rise of the shareholding state has not just painted a professional façade of corporate formalism but has eventually altered the way in which the state invests, develops, and regulates. Organizing the shareholding state has added new interests, institutions, positions, capacities, instruments, ideas, and time horizons onto the state. The rise of the shareholding state speaks to the shifting nature of state interventionism as the state has deemphasized direct planning and administrative interference but increasingly operates through the corporate arrangement of shareholder rights and activism. The early designs of shareholding reform by policy elites and key leaders, I examine, reveal a profound modernizing effort by the Chinese state without conceding control over the economy. We have to wait and see whether the shareholding state is the best card for China to realize its "market socialism" (or "state capitalism") or if it is only a transitional stage prior to full convergence to a privately owned and liberal economy. In any case, the institutional pathway to the rise of the shareholding state will constrain the way in which the interventionist state expands, morphs, or dissolves.

The Revolt of the Owners: Shareholding Reform and the Discovery of Financial Mechanisms of State Control

In the early period of China's economic reform, SOE reforms predominantly consisted of increasing the power of managers rather than restructuring ownerships. Throughout the 1980s, the deterioration of SOEs' performance was prevailingly interpreted as a managerial problem. To grant incentives to SOE managers, Chinese reformers implemented a profit contract system to decentralize administrative control over SOEs and encourage market-oriented productions. Foreign experiences was pertinent under the managerialist framework on account of their “advanced management methods” (Li 1981; Yuan, 1991). It was a time when Japanese managerialism caught the imagination of Chinese officials in their pursuit for corporate modernity; study tours were dispatched to Japan and management guidelines were assembled and circulated. Until 1994, Premier Zhu Rongji still attributed SOE’s falling profit rate and their lag in technological innovation to the lamentable degeneration of the socialist managerial class in China (Zhu, 2011: 376).

Opportunism and malpractices of SOEs managers mushroomed as a result of the decentralizing reform. Managers attempted to hide information from central planners and siphoned off state resources for their own private business. They also developed their own constituencies by colluding with local government officials in activities of asset-striping, extraction of state resources, self-dealing, and corruption. Some managers forged alliances with workers by ignoring wage planning and discretionarily increased the latter’s salaries and consumption. Such practice allegedly trigged the rise of consumer prices and derailed national economic plans. The growing power of managers culminated in the massive use of Chinese-style MBOs (“management buyout”) and a wave of privatization; managers of these enterprises acquired controlling stakes or full ownership via off-market negotiations with local officials (Leng, 2009: 76). Around 1994, this way of privatizing SOEs, which resulted in heavy loss of state assets, became alarming news to the public and the central government.

Beginning in the early1990s, the diagnosis of SOEs by policy elites and intellectuals gravitated towards the problem of ownership representation. This shifting locus of SOE reform reflected the leadership change and a new approach to economic reform after the Tiananmen incident. The Tiananmen protest in 1989 sealed the fate of a decentralized and managerialist approach upheld by the Hu Yaobang/Zhao Ziyang administration. The post-Tiananmen leadership attached importance to both state control and the development of market institutions. The change of policy regime paved the way for the rise of the “Integrated Reform School” (*zhengti gaige pai*) (Wu et al, 1988) that became the key architect of China’s shareholding reform and state asset management system. “Integrated Reform School” (IRS) was a self-organized policy advocacy group, consisting of state think tank researchers and junior officials, mostly associated with the

People's Bank of China (PBOC, also known as China's Central Bank). They were committed to adopting the world's best institutional practices and building up a "modern" economy for China; at the same time, they saw no contradiction between state ownership and marketization. They accused the earlier decentralization reform approaches as amounting to putting up "a tax-farming system of the 18th century Europe" (Wu et al, 1988). Sidelined in the 1980s, IRS made a comeback through their personal ties and intellectual affinity with the post-1989 leadership, especially Premier Zhu Rongji.

IRS argued that the absence of the owner and vaguely defined owner's rights and incentives were major problem sources of SOEs' plight (Wu and Qian 1993; Zhou, Lou and Li, 1994; Wu and Xie, 1994). The documentation of ownership for SOEs was terribly unclear even though SOEs were doubtlessly "owned" by the state; state ownership often came with vaguely defined obligations and responsibilities. IRS's solution was to institute shareholding reform so that shareholders' rights, including the state's, would be safeguarded. Shareholders would have an incentive to discipline managers and demand good corporate performance.

IRS certainly was not the only observers of SOE's problem from the perspective of owners, but it was the most coherent group rising from the state that was able to supply the post-1989 leadership with renewed theoretical justification and concrete institutional contour of state-controlled economic reforms. Exporting Western practice of corporate governance and agency theory through US-based Chinese economist such as Qian Yingyi, IRS universalized and neutralized them for the socialist context. They argued that Chinese SOEs were suffering from their own version of the "insider control problem" which prevailed in the age of "big corporations" in liberal economies. This problem was particularly acute in a socialist economy because state ownership was neither personified nor clearly documented. They encouraged the state to exercise shareholder activism and to discipline the managers. To this purpose, they emphasized that the corporate governance mechanism was quintessential to modern corporations. Corporate boards and board meetings were the essential institutional venues where shareholders' interests and rights were exercised (Wu and Qian 1993). Overall, IRS depoliticized shareholding, presenting it as a universal trend of socializing capital and ensuring the rights of investors (Zhou, Lou, and Li 1994). Through meetings and personnel connections with the leadership, they seized every opportunity to hammer their ideas home. In 1997, President Jiang Zemin, clearly convinced, reported to the National Congress that shareholding ought to be the official guidelines for SOE reform. He asserted, “shareholding system is an efficient way of organizing capital. Capitalism uses it. Socialist can use it too” (Jiang, 2006). By 1998, 84.8% of state-owned industrial firms had been corporatized and reconstituted with corporate governance structures (Zhou and Zhang, 2005: 14).

Shareholding certainly was not a new intellectual invention of the 1990. In the mid-1980s, capital-hungry SOEs were already converting themselves into joint-stock corporations, introducing funding from both foreign and private sources. Shareholding played a significant role in diversifying ownership and thus diluting the state’s share of capital. It was an economic necessity rather a choice for both the cash-striped SOEs to invite investment and for the state to “let go” of the small and inefficient companies. Some observers thus asserted that shareholding reform was “a Chinese way of privatization”, pointing to the plummeting number of industrial SOEs from 120000 in the mid-1990s to 31750 in 2004 during the peak of corporatization (Ma 2010).

A careful examination of the early designs of the shareholding system and the set of the leadership’s concerns surrounding shareholding reform, however, would suggest that shareholding reform actually increased the state’s financial control which convinced the leadership to officially roll out with these reforms nationwide. The concern was more on how to “grasp the large” rather than “let go of the small”, as stated in the official guideline of SOE reform in 1995. IRS pointed out in their meeting with the State Economic and Trade Commission (the cardinal agency of economic policy making under Premier Zhu Rongji) that capital control through shareholding arrangement would be a highly efficacious type of state control. As long as the state kept majority stakes in strategic sectors, it would not only continuously enjoy the rights of the largest shareholder but would also be able to absorb and “leverage” funds of private sources,, much larger than the size of its own contribution, through the capital market. Such kind of unmediated financing would likely be more expedient than through savings and loans at traditional banks; SOEs would effectively tap into the growing national surplus. IRS’s key member, Guo Shuqing, urged the leadership to update their notion of state control, arguing that the state’s control in the age of finance was not measured by the amount of capital which it directly controlled, but by the leverage and influence that the state's capital would be able to command (Guo, 2008).

The statist formula that IRS offered dispelled the central leaders' apprehensions about shareholding reform. Initially, key leaders associated shareholding reform with decentralization and privatization. My survey of writings and talks of key leaders in the early 1990s found that the Soviet's voucher system and its subsequent path towards downright privatization casted a long shadow over Chinese leaders' perception of shareholding reform (Zhu 2011, Jiang 2006). Premier Zhu Rongji, in particular, warned against China's own trend of experimenting with employee ownership plans emerging in the late 1980s. But within the IRS's formula of shareholding reform, Chinese policy elites were able to reimagine the institutional role of the Chinese state in economic development.

The outcome of shareholding reform closely bore out the early designs of IRS and the leadership. In the industrial sectors, more than one hundred "national champions" in very "strategic" industries were forged, corporatized and opened non-controlling shares to public investment. Since 2003, the wave of corporatization and public listing expanded from the industrial to the financial sector. In a matter of three years, China's four largest state-owned commercial banks were incorporated and listed domestically and internationally. Since 2007, the proportion of SOEs listed on China's A-share market has been steadily on the rise. In 2012, 953 state controlled corporations were listed. State controlled corporations accounted for 40% of the number of all listed companies and 51% of total market capitalization on A-share market in China.[3] The snowballing of state assets via the capital market has been accompanied by a series of institutional innovations in the face of the imperative of managing them. The following sections will describe and explain the evolution of the institutional contour of the shareholding state.

Building up the Shareholding State: the Rise of "Institutional Owners" and the Organizational Field of State Asset Management

One prerequisite for corporatizing SOEs was to convert the state's contribution into shares. Under socialist economies, state ownership was financially manifested in the

[3] Source: "the National Meeting of the Supervision and Management of State Asset," SASAC, 01/10/2013

forms of grants, funds, physical assets, and loans. Since 1979, to reduce SOEs' reliance on the state's "soft budget", government appreciation for SOEs was replaced with bank credits. SOEs' easy access to bank credits throughout the 1980s resulted in an alarming 62% debt-to-asset ratio at industrial SOEs (Zou, 2008: 351).[4] Debt became the major obligations of SOEs to the state in the early 1990s. However, with the low profitability of these companies and their imprudent use of cheap credit, a large proportion of the loans turned sour. In 2000, the four largest state banks recorded 30% Non-Performing Loans (NPL) (Hu, 2004: 55). Bad loans were a major obstacle for SOEs to optimize their capital structures; they would certainly look bad on the books and bring down the evaluation of both SOEs and state banks when either one tried to go public. To dispose of bad loans, the state had three options: fiscal injection, writing them off, or debt-to-equity swap. IRS suggested to the State Economic and Trade Commission (SETC, the overarching economic decision making body then) in 1994 that fiscal solutions of dealing with bad loans—writing them off or fiscal injection—was no longer sustainable given the dropping tax revenues of the central state. Converting these non-performing loans into share capital can improve the asset quality of state banks without billing the national budget. By careful calculation, IRS' leading advocate, Zhou Xiaochuan (the current Governor of PBOC), then a PBOC researcher, was confident that the total sum of state asset, after debt-to-equity swap, would not shrink (Zhou and Wang, 1994). The 1997 Asian Financial Crisis jolted the leadership and prompted their determination to overhaul the Chinese banking system and face SOE's NPL problems. In 2000, SETC officially rolled out the debt-to-equity program nationwide. At the same time, shareholding reform was finishing its last strokes with other types of governmental contributions such as funds and physical assets were appraised and converted. State ownership was finally represented by a common denominator—equities.

As the state ownership became economically legible, the ensuing issue was to monitor the state assets on behalf of the shareholder state. In 2003, the State-owned Asset Supervision and Administration Commission (SASAC) was established against the backdrop of a new wave of public criticism of state asset loss during unmonitored and predatory privatization. SASAC, an administrative agency under the state council, was

[4] The ratio was 75% in the construction sector and 98% in trade in1998, Hu, 2004:7.

made to be the "sole representative of state ownership" designated to "perform the investor's responsibility" for 196 central SOEs (*yangqi*, SOEs controlled by the central government). By 2005, local branches of SASAC replicated to supervise the local SOEs. One of the SASAC's core missions was to "establish and improve the index system for preservation and increment of the value of state-owned assets" (Source: SASAC official website).

The establishment of SASAC was significant because it not only institutionally centralized the state's supervision of SOEs but also financialized the terms of state-SOE relations. Before SASAC was established, multiple government agencies (such as The Ministry of Finance, the Planning Commission, the Ministry of Labor, etc) with different objectives divided the right of supervising SOEs. They imposed ad-hoc administrative interferences upon SOEs and, more often than not, generated conflicting signals; yet no single entity was made ultimately responsible for SOE performance (Leng 2009; 65). SASAC was now the "sole" representative of state ownership and was devoted to supervising assets and disciplining mangers in terms of financial value. Since 2005, SASAC has kept a yearly record of "the rate of the maintenance and appreciation of the value of state asset" (*baozhi zengzhi lv*) for each central SOE and publicized their rankings by this measurement. Since 2010, to better reflect the opportunity cost of state's capital, SASAC added the metric of EVA (Economic Value Added) as a baseline evaluation. In a word, the establishment of SASAC was the first step that the Chinese state made to professionalize the state asset management in the industrial sector.

SASAC was after all an administrative body (it does not hold shares in SOEs), while the revolt of the shareholder in the financial sector followed a more corporate route, largely thanks to PBOC's initiatives and the competition that it induced in the Ministry of Finance (MOF) in vying over shareholding of China's state-owned commercial banks. This open competition between two state entities, as will be explicated in detail, showcases the introduction of new bureaucratic principals and an unseen type of bureaucratic competition among them after shareholding reform.

Corporatization was slower in the financial sector than for industrial SOEs because of the perceived strategic importance of finance to China's economic and national security. However, as the timeline of opening up Chinese markets to foreign banks in 2001 drew closer according to the WTO agreement, Chinese leaders felt it was time to corporatize the domestic banks and prepare them for international competition (Walter and Howie, 2011). Since China's capital-intensive developmental model often outpaced bank lending and national savings, banks found themselves periodically in need of new capital.[5] So, recapitalization of the four major state banks presented a challenging task because the banks had a much larger financial gap to bridge than industrial SOEs and selling-off was not an option. The question became where the new money should come from and which state institutions should recapitalize the banks and buy off the accumulated problem loans.

PBOC, acting through its China Central Huijin, was able to displace MOF as the majority shareholder during the recapitalization of China's commercial banks. Before corporatization, MOF was the "owner" of state banks. Periodic fiscal injection from MOF was a common practice to rescue the banks. However, the new round of recapitalization would put an unbearable budgetary burden on MOF. MOF felt reluctant to reach into its pocket again, and so PBOC stepped up. With China's trillions of foreign reserves multiplying under its supervision, PBOC officials had been searching for better investment opportunities than the low yields from buying US treasury bills. PBOC officials Xie Ping (one of the leading voices of IRS) and Yi Gang (a professor of economics previously at the University of Indiana) suggested using its reserve holdings to set up a corporate entity – China Central Huijin – to recapitalize the four big banks. After the Bank of China and China Construction Bank were restructured in 2003 under PBOC's scheme, MOF realized that its capital contribution in these banks was significantly diluted. In addition, via Huijin, PBOC immediately became the behind-the-scene shareholder; PBOC filled Huijin's board of directors with its own people.

MOF, previously a budget maker, soon caught up and financialized its own restructuring program. MOF jumped on the restructuring bandwagon and joined the dealing of bad loans from the remaining two state banks—Agriculture Bank of China and Industrial and Commercial Bank of China— by transferring them to a co-managed

[5] Therefore, shareholding reform also provided an opportunity to raise capital on the domestic and international market. The concern regarding enhancing Chinese banks' credit analysis, risk management, corporate management and subjecting them to the shareholder discipline and international scrutiny was also genuine (Walter and Howie 2011, 143).

account. But what the banks receive was not cash from MOF but what could be called "MOF IOUs" (Walter and Howie, 2011:181). Such "receivable" would be funded by MOF's future claims in the banks' dividends, income taxes, and interest-bearing bonds. In other words, the banks will be paying themselves back for MOF's initial "investment". This amounted to a splendid exercise of "leveraged buyout"; an ingenious way for the MOF to ensure its shareholder stakes in these banks. Table 1 presented the end result of this round of competition.

	Year of corporatization	*Largest Shareholder*	*Second Largest Shareholder*
Bank of China	2004	Huijin 100%	N/A
China Construction Bank	2004	Huijin 85.2%	China Jianyin Investment 10.6%
Industrial and Commercial Bank of China	2005	MOF 50%	Huijin 50%
Agriculture Bank of China	2009	MOF 50%	Huijin 50%

Table 1. Shareholder Composition at the Year of Corporatization Of China's State-owned Commercial Banks

From the case of Huijin, MOF also realized the importance of having a corporate agent of its own; in 2007, China Investment Corporation (CIC) was established for this inexplicit purpose. CIC was claimed as the official Wealth Sovereign Fund for China but its domestic motives was soon revealed in its acquisition of Huijin immediately after its establishment, to the great chagrin of PBOC. In other words, MOF now crowned itself in the myriad structure of China's banking system. After losing Huijin, PBOC kept a low profile on its remaining asset management company—Huida.[6] Huida was set to deal with PBOC' own troubled assets. Its operation has been shrouded in mystery because it does not sell its debt portfolio on an open market.

The lure of controlling the now profitable SOEs drew state agencies into the business realm. But it is not accurate to argue that PBOC and MOF's institutional entrepreneurship in acquiring shares in state banks marked a return of the old business of

[6] Interview of PBOC official, July, 2013

"administrative interference" of a command economy. The new type of control stemmed from these state agencies' "investment", using organizationally-hosted public financial resources. Bureaucratic interventions have been recast into shareholders' right and legitimate influences over corporate decisions. The degree of bureaucratic entrepreneurship depended on how much an agency could "capitalize" their administrative status, sovereign promises, financial programs, and convert them into investable capital. The shareholding competition reformatted and economized the interrelationship among the bureaucratic agencies as well. Bureaucratic coordination can be built into the institutional arrangement of corporate governance structures. We start to see that MOF and Huijin brought their disagreements over state banks' financial restructurings, dividend policies, and choice of directors into the rooms of board meetings (Wu, 2010). I project that this type of competition might be intensified when more state agencies, those bearing an investment functions, such as, the Ministry of Railway, and the China Development Bank, amassed their own institutional resources and wanted to carved out their own shares. [7]

While Huijin and CIC represented the corporate model of state asset management, SASAC, an administrative agency, was under pressure to upgrade its own organizational charts and management philosophies. Since 2005, SASAC uprooted three industrial SOEs under its supervision —State Development and Investment Corporations (SDIC), China Chengtong Group, and China Guoxin Corporations—from their sectorial attachments, and remolded them into holding and investment companies. Although neither of the three companies had enough capital to acquire the most mighty SOEs, they began to take over less profitable and medium-sized ones. SASAC has a clear intention of making these holdings into an intermediate layer – between itself and SOEs. It even counted on these holding companies to disinvest in overcapacity-producing SOEs and

[7] The Ministry of Railway held at least US$716 billion of assets and US$ 440 billion of government debt in 2012 invested in railway constructions and heavy industries. Public criticism of its half-hearted commitment to enhancing the value of state asset partly contributed to the disintegration of the ministry in 2013. The China Railway Corporation was built accordingly to professionalize the ministry's investment decisions. SASAC, while an administrative body that has only a nominal amount registered assets, controls managerial decisions on how to spend and reinvest SOEs' yearly dividends, which amounted to US$25 billion in 2012. Sources: Financial statement from of the Ministry of Railway released in November, 2012 on Chinabond.com ; "Explanation of of the 2013 Central State Capital Management Budget" released by the Ministry of Finance on March 22, 2013, accessed at http://yss.mof.gov.cn/2013zyczys/201303/t20130322_784806.html

further consolidate and rationalize China's industrial structure. SASAC hoped that through this method the current 116 central SOEs could be cut by 10 in 2014.[8]

These principal players led the formation of the organizational field of state asset management. The field is differentiated by bureaucratic lineages, but bounded together by their competition, mutual recognitions, and the same structural positions they occupy in the Chinese state (refer to Figure 2). A shared recognition of the Singapore's Tamesek model additionally gave the field a common paragon. Reformers believed that Tamesek achieved the twin goal of reaping handsome investment returns for the state and maintaining operational independence from the government. Study tours, training sessions, research reports were mobilized to promulgate the Tamesek model across the field. Huijin and CIC competed to be China's first Tamesek.[9] Manager of State Development and Investment Corporations (SDIC), citing Tamesek's substantial industrial holdings, argued that SDIC bore closer resemblance to it.[10] The Singaporean government-owned investment company caught the imagination of Chinese state asset managers from the central down to the municipal governments.

Since commercial banks were banned from directly investing in the securities market and from acquiring equities in SOEs, non-banking financial institutions sprang up as "institutional owners" of state shares. China Development Bank and the National Social Security Fund soon joined the state business of equity investment. Albeit bearing different historical origins and different corporate identities, they served to organizationally diversify the shareholding state and introduce a somewhat oligopolistic competition. At the local level, state asset management bodies with a variety of corporate titles also mushroomed. State asset management bodies indeed constituted the most vibrant point of growth of the public sector since its drastic downsizing in the mid-1990s.

From Institutional Owners to State Investment Banks

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[8] "78 SOEs in Competitive Sectors Can be Cut by Ten", *China Business*, 01/11/2014

[9] "Wu Xiaoling: Huijin Aiming For Being China's Tamesek," *Shanghai Securities News*, 10/23/2006; Bouncing Back from Setback of Investing in Blackstone, CIC Striving for Change to Catch up With Tamesek," *The New Fortune Magazine*, 11/28/2013.

[10] "Building China's Temesek: An Interview of SDIC's CEO Wang Huisheng," *Economic Herald*, No.24, 2006.

Initially serving as corporate agents to recapitalize and restructure SOEs and state banks, state asset management bodies soon discovered that they could do more than just being holding structures. In the past several years, passive asset holders turned themselves into active investors, collecting a full range of financial licenses and developing their own financial subsidiaries. The state-owned status of these asset management companies provided them with cheap credit and preferential entry into the financial market. Since regulation on how to invest and where to invest as state-owned non-banking financial institutions remain uncharted, financial licenses were approved at the State Council on an individual basis.

Soon the leading players such as Huijin and CIC found themselves operating in all sectors of the financial industry. After recapitalizing the state-owned commercial banks from 2003 to 2005, Huijin moved on to acquire controlling shares in five state-owned securities company, three insurance companies, two investment firms, and one policy bank. In 2012, the "Huijin Empire" held equity stakes in 19 financial institutions, all above 30% of shares.[11] Easy access to domestic financial industry was too appealing for CIC to stay a full time SWF. CIC has spent a large proportion of its foreign exchange money on capitalizing two state-owned commercial banks. It also established a wholly owned subsidiary in Hong Kong, and started to flex its muscle in bond and stock markets, consulting, and even economic research.[12]

The Big Four Asset Management Firms (Cinda, Great Wall, Huarong, Orient) were established in 1999 to take over non-performing Loans (NPL) from the state-owned commercial banks.[13] After most of the NPL were disposed ten years later, these four Asset Management Firms refashioned themselves into financial holdings and investment firms by building their own specialized subsidiaries. They now operated in all areas of banking, futures, securities, trust, and real estate; they also engaged in businesses of underwriting, equity holdings, and merger and acquisition.

The industrial holdings under SASAC were catching up in financializing its investment too. After more strenuous lobbying efforts and a longer waiting period than

[11] "How Big is Huijin," *Beijing Business Today*, 06/17/2013
[12] "Breaking up CIC Draws Near: CIC HK Serves as Investment Platform," *Global Entrepreneur*, 11/28/2011.
[13] These Asset Management Firms were modeled on US' Resolution Trust Corporation during the savings and loan crisis in the 1980s

the financial holdings, the industrial holding company such as State Development and Investment Corporation (SDIC) also succeeded in collecting a broad range of financial licenses in trusts, insurance, futures, consulting, and private equities.[14] Managers at these industrial holding companies confessed that under the pressure of appreciating the value of state assets, they could not just babysit fixed state assets but had to mobilize them and invest actively. [15] China Development Bank (CBD), the largest policy bank that was newly corporatized in 2008, successful deployed its resources to become an active financial investor; part of its success can be attributed to not being bound by regulatory restrictions imposed on savings banks. With the backing of its three mighty shareholders – the Ministry of Finance, Huijin and the National Social Security Fund – CDB expanded into every conceivable area of China's financial universe as well, including securities, private equity, leasing, credit guarantee, rating agency, and numerous financing platforms of local governments (Sanderson and Forsythe, 2013). CBD's first international move was made with its acquisition of 3.1% stake in Barclays.[16] It has also acted as an indispensible investment partner with Chinese SOEs in Latin American and Africa (Sanderson and Forsythe, 2013).

There is a convergent trend in which these above holding institutions have become China's state-owned "Goldman Sacks" and "JP Morgan", in spite of themselves. Without the central coordination from their ultimate principal – the state – these corporate agents acted like "normal" market actors, acquiring as much as they could of China's newly tradable state assets, knowing that gaining a foothold in the blooming financial market was an exigent priority.

If we scrutinized the source of new capital that these state asset management bodies raised, a more profound linkage between sovereign power and finance can be disclosed. The sovereign or semi-sovereign status of these state-owned institutions helped them "leverage" finance while the financial market enabled the expansion of state's capital. Fiscal support from the state was removed from the picture; the recent source of funding for Huijin and CBD did not even come from treasury bonds but increasingly

[14] "SDIC Acquired Essence Securities with 9.5 billion yuan," *Xinhua News* 12/31/2013
[15] "Mo Dewang: Guoxin Will Invest in Strategic but Emerging Industries", China Securities Times, 03/12/2012
[16] http://online.wsj.com/news/articles/SB10001424052702303949704579462101918756012

from their own bond issuing. In 2010, Huijin issued $31 billion long-term bonds to capitalize the struggling The Export-Import Bank of China and China Export-Credit Insurance Corporation to prepare for their corporatization. CBD was explicitly made to be independent of the national budget after corporatization; funding itself through debt issuance in the interbank market. Currently, CBD is the second largest bond-issuer in China, second only to the Ministry of Finance.

Because of the semi-sovereign status of these corporate entities, bonds they issued were treated as sovereign bonds. Their interest rates were kept artificially as low as treasury bonds. International rating agencies typically pegged the ratings of their bonds to those issued by the Ministry of Finance. By issuing bonds to acquire equities, these state agencies exercised what is equivalent to "leveraged buyout", copying from MOF's playbook when it acquired the state banks. Leveraged buyout is a common financial strategy at the exposal of private equities when making large acquisitions. For lack of better a term, international observers dubbed the Chinese state-backed investment funds "public equity" (Sanderson and Forsythe, 2013: 31). "Public equity" apparently bears a different type of risk. Since both Huijin and CBD's bonds were purchased by state-owned commercial banks, the risk was kept "inside of the system" (Walter and Howie, 2011: 151). The ostensible market operation of the state business obscured the fact that the debt merely changed hand between a few state players. In this way, risk is collectively hedged and fundamentally underwritten by the sovereign state; default was remote.

Consequences: The Financialization of Government Investment and Industrial Policies

Existing literature on the financialization of the industrialized world indicates that financialization, measured by the increased source of financial revenues for non-financial firms, has an effect of further de-industrializing national output. However, in China, where industrialization is still a work-in-progress, the resort to financial market altered the way in which industrial investment of the state was undertaken rather than depressing it. In fact, China's gross capital formation, an indicator of a nation's fixed asset investment, has steadily climbed from 35% of GDP in 2000 to 49% in 2012 (source: The World Bank). The 2009 stimulus package, of which three-fourth went to infrastructure construction, ratcheted up capital formation since 2009 even more. The state asset management system has become an important institutional vehicle for state-led investment. At these financial platforms, state ownership was bundled, which to a great extent has obscured sectorial origins and identities of industrial capital. On these platforms, financial perspectives and interests to industrial investment were assembled. It transformed the politics of previously sector-based industrial policies.

These institutions also provided a non-banking source of credit expansion for infrastructure investment with highly structured financial instruments. Financial innovation, in contrast to diverting capital from fixed asset investment, facilitated long-term investment in China even though at the same time it was responsible for the growing government debt from credit-financing public investments. I will discuss these two ways in which industrial investments have been financialized in the space below.

State asset management bodies tapped into new sources of knowledge and skills for the state to manage its economy. I alluded to how financialization has prompted fiscal institutions, primarily the Ministry of Finance, to join the shareholding race and stake out its own share of financial entrepreneurship.[17] The changing investment mottos and methods in the industrial sector is probably the strongest test to the rising primacy of financial management. It is because the physical and sectorial way of organizing assets in industrial investment, thanks in part to the institutional legacy of a planned economy, appeared the remotest from the one of financial investment.

Industrial investors in socialist economies were planners located in the industrial ministries. Industrial ministries in China were divided firmly along sectorial lines, such as the Ministry of Petroleum Industry, the Ministry of Electronic Industry, the Ministry of Textile Industry and so forth. From the 1980s to the mid-1990s, industrial ministries were gradually abolished and restructured into SOEs, however, the sectorial division of labor remained. Chinese SOEs tended to be vertically integrated and specialized rather than multidivisional (Chen, 2009: 130).

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[17] The appointment of Lou Jiwei as the Minister of Finance in 2012 sent a strong signal of MOF's adaptation to the financialization of public investment. Lou was probably the most financially savvy minister in the agency's history. He was one of the most important thinkers on China's financial reform back in the 1980s and early 1990s. He was part of the "Integrated Reform School", co-authoring keenly with the current Central Bank governor Zhou Xiaochuan and Huijin's manager Xie Ping.

The traditional industrial investors in a planned economy possessed two strands of knowledge with which financial managers would find unfamiliar. First, industrial investors had deep grasp of the workings of specific sectors, ranging from their material supplies, technologies, productions to sales and employment; second, industrial managers often needed political skills to solicit cooperation from local governments and industrial ministries in cases of conducting new projects or cross-ministerial mergers. Staking out long-term industrial projects under the jurisdiction of local governments involved mobilizing a wide-range of locally deployed resources such as land, raw materials, and human resource. In cases of restructuring and consolidating SOEs in which ministerial interests needed to be aligned and managerial downsize was imminent as a result of the merger, political charisma and skills greatly smoothed the administrative process. Chen Jinhua, when he was the mayor of Shanghai in 1983, was summoned to build China's national champion in the petrochemical industry (SINOPEC). The conglomeration met strong resistance because it involved incorporating oil refining, petrochemical, and chemical fiber enterprises under the control of three powerful industrial ministries as well as provincial governments. To acquire dozens of enterprises under the jurisdiction of various ministries, Chen used tactics of persuasion, intimidation or even sabotage (Chen, 2005; 172-174). After the industrial ministries were abolished, the national champions among the central SOEs grew into mighty power centers themselves, further consolidations anticipated the similar exercise of political mettle and intervention.

SASAC, a state agency that has the same ministerial ranking as the leading SOEs, lacked regularized political resources to conduct consolidations. It was simply too politically costly to complete each large deal of consolidation in this fashion. State asset management corporations, however, provided platforms where M & A of SOEs can be operated in a depoliticized fashion. In contrast to the vertical lines of authorities enacted by ministries and their SOEs, industrial holdings and state investment corporations, however, provided horizontal platforms across sectors and SOEs where industrial assets were commensurated, packaged, and traded in financial units. State asset managers were interested in optimizing the capital structure of their industrial portfolios. By trading packaged units of industrial capital, state asset management obscured the political identities of the state's capital.

New types of industrial knowledge emerged in correspondence to cross-sectorial positions of the new generation of industrial investors. The financially savvy industrial investors looked out for the market value of industrial projects and the opportunity cost of invested capital. SASAC officials credited the financialized vision for its sensitivity towards detecting up-starters and real winners. They believed it would give conventional industrial policy makers a complete new plate of problems and indicators to think with.[18] the reliance on financial market to merge and consolidate SOEs enabled SASAC to depoliticize the transactions and dissolve resistance.

SASAC's flagship industrial holding company, the State Development and Investment Corporation (SDIC), possessed a unique position of conducting this type of financially sensitive industrial investment. SDIC's current manager summarized in metaphorical terms that "if industrial corporations are the pillars of the national economy, investment holding corporations are its nimble hands."[19] The managerial succession at SDIC illustrated the changing concept and imperatives of industrial investment. SDIC's founding manager, Wang Wenze, resigned in 2003, confessing that, as a trained industrial engineer, his "existing knowledge and professional skills are unable to adapt to the new development of market economy and the new management methods and philosophies".[20] Wang Wenze's successor, Wang Huisheng, rose up internally from SDIC, but his experience of working at the Comprehensive Planning Department of CDB in the 1990s gave him a better footing to acquire a cross-sectorial vision. Since 2003, Wang has revamped SDIC according to his interpretation of investment companies' role in industrial production. To craft the "nimble hands", Wang Huisheng uprooted SDIC's longstanding interests in coal, electricity, and shipbuilding and greatly diversified its investment options. He also encouraged SDIC to engage in short-term shareholdings in order to enhance the liquidity of its capital structure. An extensive study tour at General Electric in 2004 taught SDIC how sound financial management can lower the capital cost of industrial investment. To emulate GE's financial strategy, SDIC developed a capital

[18] "The Rubik of SDIC's Capital: How to Leverage $20 Billion with $2 Billion", accessed on SASAC's official website http://www.sasac.gov.cn/n1180/n2381219/n2386504/n2386535/2537726.html
[19] "SDIC: Using Equity Management to Pry the State Capital", 04/19/2006, Xinhua News, accessed at http://news.xinhuanet.com/fortune/2006-04/19/content_4448967.htm
[20] "From General to Counselor: the Retirement Lives of Three Managers of Central SOEs," *SOE,* 2006, No.10

pool and improved its cash flow.[21] Soaring profit from successful financial management finally won over the last group of old-fashioned holdout industrial managers at SDIC.[22]

Aside from self-learning and internal upgrading, SASAC also felt the need to inject new blood directly from the financial sector to manage industrial assets. In a high profile managerial search, young talents like Wang Bin, a finance major and securities analyst, were brought into the management team of Chengtong Group. Chengtong was another industrial holding and investment firm under SASAC whose management team was previously dominated by mechanical engineers. Wang Bin led Chengtong's first issuing of corporate bond and completed several liquidation and restructuring cases of SOEs. If Chengtong was aiming for "exponential growth" of assets, Wang Bin insisted, the management team has to come around with "financial thinking". [23] Under SASAC's call of "combining industry with finance" (*chanrong jiehe*), one should anticipate more direct traffic of personnel and skills from the financial to the industrial divisions of the state asset management companies.

The second way in which the state asset management system financialized industrial investment is that state asset management bodies have become financing vehicles for infrastructure-related government investment. Some products these financing vehicles provided are highly structured. In fact, state asset management bodies are now China's largest providers of securitized products. CBD securitized 2 billion (US$) loans held by China Railway Corporation, the largest securitized product in China's history, to "solicit financial institutions' support of railway investment reform".[24] Local governments were even more uninhibited and entrepreneurial in relying on state asset management "platforms" (*pingtai)* to assemble structured investment vehicles. According to a survey by the National Audit Office in 2013, there were 7170 "local financing platforms" (*difang rongzi pingtai*) nationwide and 40% of local governmental debts was issued by these corporate entities. These "platforms" have hosted an incredible variety of financing schemes such as bonds, short-term commercial papers and securitization

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[21] "SDIC: To be China's GE," *International Financing,* 2008, No.10
[22] "Restructuring China's Largest State Investment Company: Targeting Hydropower, Downsizing other Industries," *Talents Mag*, 2011, No.6
[23] "Seven Years of SASAC's Global Hiring", *Business Watch Magazine,* 2010, No.18
[24] source: "The Successful Launch of 2 billion Railway asset-backed Securities: Securitization," CDB website, 02/27/2014

products. The word "platform" in its all vagueness well captured the all-in-one functions of these local asset management bodies.

The financialization of public investment by local governments speaks again to the trade-off between budget and credit as two sources of financing public investment. China's local governments are responsible for 80% of government spending while receiving only half of the nation's fiscal revenue.[25] To counter the fiscal plight, cash-strapped local governments had to borrow to invest in infrastructure building and urbanization. State asset management companies of local governments mined a large range of state assets and used them as collaterals to take out loans. Land represents the most promising site of collateral mining because the real estate boom of the past two decades has exponentially increased the value of urban land. Land in China is all owned by the state but the sale of land leasing rights belongs to the local governments. Backed by the expected income streams provided by these public assets (mortgaged public lands, the leasing of public facilities or even tax revenues), local governments leveraged their borrowing. State-owned commercial banks helped repackaged local debts and sold them as "wealth management products" to retail consumers. In June 2013, local government debt has hit $2.95 trillion; 37% were backed by land sales.[26]

Leveraged finance used by local governments consistently demonstrates the reinforcing logic between sovereign power and finance. Although the sovereign actors are local governments in this case, local debt so far has the full backing of the central government. In addition, the profile of public debt has made them especially attractive to securitization. Public debts incurred from infrastructural investment generally have long-term horizons; government can use public revenues as a predictable source of payment streams. Public debt also enjoys the availability of government bail-outs as a means of last resort. Therefore, securitized products, the perceived villain of the global 2008 Financial Crisis, have become highly popular financing instruments with these state asset investment bodies in China. This was even more so after 2008, thanks to a government-directed investment binge in 2009 to avert possible economic recession. The majority of the new investment was directed towards infrastructure building and public projects.

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[25] "China's Fiscal Reform Needed," *China Daily*, 11/15/2013

[26] "The Audit Result of Local Government Debt," announced on the website of National Audit Office, accessed at http://www.audit.gov.cn/n1992130/n1992150/n1992500/n3432077.files/n3432112.pdf

While western institutional investors disfavored infrastructure bonds in fear of the scale, complexity, and political motives of big projects, infrastructure investment is the most favorable site for securitization in China.[27] Chinese investors know too well that precisely because of the long-term and government-led aspects of infrastructure project, returns are fairly regular and guaranteed. The financialization of public investment subjected public projects and government debts to market risks. However, the debt of local government, incurred another variation of sovereign risk, of which various other state financial institutions, such as local state asset management firms and state-owned commercial banks, all have an endogenous share, acting in their various capacities as debt issuers, pass-through structures or underwriters. This type of sovereign risk precisely emboldened leveraged finance and undergirded the expansion of industrial investment as government budget fell short.

Discussion

This paper extends the study of financialization from the economy to the state. What is being financialized is the way in which the Chinese state supervises its massive state asset from administrative and fiscal intervention to financial management according to the shareholder value. State ownership is a critical means by which the Chinese state governs its economy. The financialization of such economic governance thus directly affects how the state finances, invests, and solves developmental problems.

Contrary to the global trend in which privatization accompanied the liberalization of financial markets, the Chinese shareholding state was integral to the development of China's financial market. I have shown the statist route to the rise of the shareholding state in the 1990s. Early reform designers envisioned that corporatization of SOEs and shareholding reform could help expand the financial orbit of the state's control.

However, a unitary state owner can not constitute a market. The formation of markets in the Chinese case hinged on organizational diversification and competition among an array of "institutional owners". State asset management bodies, holding companies, state investment firms, have mushroomed in the past decade to represent the

[27] The Economist reported that in the $50 trillion of capital managed by pension funds, sovereign-wealth funds, insurance companies and other institutional investors. Only 0.8% of this is currently allocated to infrastructure. See "Investing in Infrastructure: The Trillion dollar-gap," *The Economist,* 05/22/2014.

state, acquire state shares, and conduct public investment. I documented the emergence of this organizational field of institutional owners and investors to capture a concerted movement that has been rarely cast in such a theoretical light.

The financialization of state asset management introduced not just a new group of market actors but as I argue has significantly reformatted state-economy relations and altered the dimensions of state interventionism in three aspects: First, the state asset management bodies occupied a unique structural position between the administrative state and the operating SOEs and constituted a "financial commanding height" within the state where state financial asset are concentrated and repackaged. Second, the struggle for occupying the financial commanding height has drawn the bureaucratic agencies into the business realm. Third, the rise of state asset management in the bureaucratic field has the tendency to change the parameter of industrial investments through their across-sectorial and financial visions

The Chinese case thus provides a rare opportunity for us to study the transformation of state ownership in an age of finance. The pyramid holding structure of state ownership was not historically new. Yet, the theoretical and historical significance of the Chinese shareholding state lies in its magnitude and a much deeper enmeshment of state and finance, to the extent that the expansion of each hinges on the other. Fundamentally finance is a promise and claim on the future. Political promises derived both from sovereign guarantees and the interlocking nature of these state investors locks in the economic confidence. By centralizing risk, boosting confidence, and prolonging the lending horizons, political and economic institutions played into the technological device of structured finance. High endogeneity poses challenges to measuring and forecasting "sovereign risk" in which political stakeholders—central government agencies, local governments, state lending facilities, and SOEs—all have a share.

The question of the relationship between state and finance will certainly invite global attention as we find that Chinese state asset managers' ambitions are carried beyond national boundaries as they are ready to invest globally. Debates about this newphenomenon revolves around the geopolitical motives of the unified state. This paper however unpacks the state and argues that the Chinese shareholding state is not monolithic. State investors are embedded in competitive organizational fields. Their statist advantage derives probably more from a mutually reinforcing effect between sovereign power and finance than from a coherent and strategic motif of the state.

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