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Rent-seeking at Home, Capturing Market Share Abroad: The Domestic Determinants of the Transnationalization of China State Construction Engineering Corporation

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Summary. — How do the Chinese central state and central state-owned construction enterprises interact with one another as China's overseas contracting unfolds in the post-corporatization period? Building upon a neo-institutional analysis of the principal–agent relationship, this article finds that contrary to most of the accusations leveled against the global outreach of Chinese SOEs, state-backed transnationalization is by no means state-dominated. SOE managers' continuous bureaucratic ties enable the firm to navigate through China's gigantic but fragmented bureaucracy in favor of corporate commercial interests, which reflects the negotiated nature of the state–SOE relationship in the course of transnationalization.

Key words — rent-seeking, state-owned enterprise, economic transition, managerial behavior, Asia, China

1. INTRODUCTION

How do the Chinese central state and central state-owned construction enterprises interact with one another as China's overseas contracting evolves during the reform era? As China plays a more active role in great power politics, the central state is motivated to exert more control over its construction state-owned enterprises (SOEs) to serve as agents for the delivery of foreign aid. Ideally, policy-oriented construction SOEs rather than market-oriented construction SOEs would be more conducive to a rising China's expansion of its sphere of influence worldwide. Yet China's construction industry is one of the most liberalized sectors in the national economy. [1] The operation of construction SOEs has long been subject to market forces and open competition. Does the juxtaposition of burdensome state-mandated tasks and fierce market-driven competition shape the transnationalization of China's construction SOEs? If so, how?

Without referring to the liberalization of China's construction industry, the prevailing view argues that the transnationalization of construction SOEs is mainly shaped by the Chinese state's diplomatic strategy, which aims to secure energy resources and alliances. According to this view, overseas contracting by Chinese construction SOEs is motivated by government policies and their associated financial supports. [2] These construction SOEs rely on not only official financial backing but also political resources such as diplomatic connections with host countries. [3] However, a few scholarly works find that the preceding view oversimplifies the situation. The agency problem often frustrates the state's intention of having construction SOEs serve as instruments of economic diplomacy (Gill & Reilly, 2007). Meanwhile, contrary to the conventional wisdom, Chinese construction SOEs engage more in international bidding for projects financed by international funding agencies than in bidding among Chinese contractors for projects financed by the Chinese government (Chen, Goldstein, & Orr, 2009). In addition to academic studies, recent trends have seen cut-throat competition among these Chinese contractors, and some of the contractors have shifted their attention to developed areas such as the United States and Europe that are irrelevant to Chinese aid programs. [4]

While each of the previous accounts touches on some key points of overseas operations by Chinese builders, further demystification of the black box of the decision-making process would enable researchers to understand the contradictions among existing studies. Two reasons justify this research specification. First, almost all of the existing literature on the transnationalization of Chinese construction SOEs focuses on the same region, Africa. The bias in the choice of empirical observations reflects the fact that Africa has been the top destination for Chinese foreign aid since 2006. However, studying Chinese contractors' activities in one particular region may confound the interactions between the state and its construction firms in general with the state's policies toward the area. Together with the fact that Asia, not Africa, occupies the lead position in terms of Chinese international contracting projects (see Figure 1), the existing studies cannot truly provide a comprehensive view on the transnationalization of Chinese construction SOEs. As such, drawing our attention back to the domestic policy-making process that involves all interested parties can provide a better understanding. Second, although a number of academic works explore Chinese SOEs' global outreach by examining domestic policy-making processes, most of them choose the state-monopolized sectors as their case studies. [5] However, the construction industry is one of the most liberalized sectors in China and has a very different market structure from that of state-monopolized sectors.

Based on these two concerns, I suggest that to assess the role of construction SOEs in China's foreign-aid program and its implications for the international-aid regime, it is a

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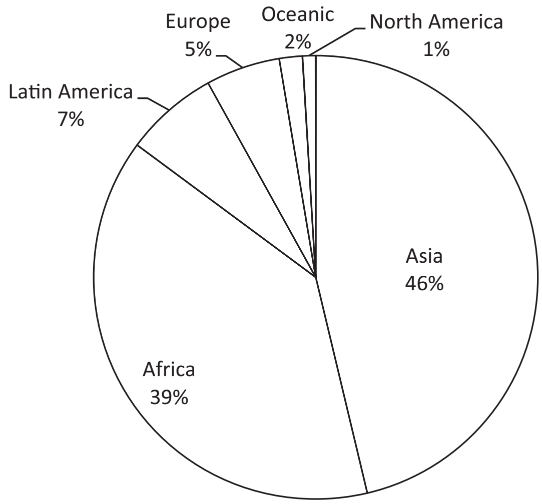

Figure 1. *Geographical distribution of turnover from completed Chinese contracted projects in 2010. Source: China Statistical Yearbook 2011.*

prerequisite to understand the domestic background against which the reform of these firms has evolved. This article thus adopts a neo-institutional analysis of the principal–agent relationship between the Chinese central state and its construction firms to explain Chinese construction SOEs' corporate strategy during the period of transnationalization—rent-seeking at home while capturing market share abroad.

By studying the China State Construction Engineering Corporation (CSCEC), this article argues that the transnationalization of Chinese construction SOEs during the post-corporatization period reflects more the firms' corporate strategy than the state's policy objectives. It is the domestic market structure, not national foreign-aid programs, which drives construction SOEs' transnationalization. Contrary to Chinese reformers' expectations, pro-competition reforms actually made Chinese construction SOEs more inclined to utilize non-market leverage to compete in an increasingly open market. After all, political influence is a firm-specific competitive advantage for bureaucracy-connected construction SOEs. Habitual rent-seeking behavior together with the pressure to meet financial standards set by the State-owned Assets Supervision and Administration Commission of the State Council (SASAC) motivate construction SOEs to negotiate with a fragmented bureaucracy in favor of corporate interests.

A case study on CSCEC can be used for understanding Chinese construction SOEs because of its top position in the industry. In addition to its status as the largest construction SOE in the domestic market, CSCEC is the first among five Chinese vertically integrated construction companies that entered the list of the top 225 international contractors, which is compiled by the *Engineering New-Record* (*ENR*).[6] This is the result of CSCEC's leading role in carrying out China's foreign-aid program. Examining the transformation of CSCEC's operation strategy from a "diplomatic arrangement" (*waijiao buju*) to a "commercial arrangement" (*shangye buju*) will contribute to a more comprehensive grasp of China's foreign behavior in the realm of political economy.

This article begins with the reform measures of China's construction industry, which created the institutional environment that shapes the incentive structures of the actors involved. It then examines firm-level behavior in response to institutional changes brought about by the reform. Special attention is given to CSCEC managers' conduct in their effort to balance their political and economic interests within a transition economy in which the Chinese Communist Party (CCP) still dominates their career prospects. The next section analyzes how this interaction between the party-state and managers determined the transnationalization of the CSCEC. The article concludes with the issue of incompatibility between managerial political and economic roles and the implications for the political economy of development.

2. THE REFORM OF CHINA'S CONSTRUCTION INDUSTRY

With the SOE sector regaining its strength in China's transitional economy, there is a growing body of research on the changing state–market interaction as a result of the corporatization reform agenda. Focusing on two theoretical themes — state–SOE relations and regulator–business relations — the existing literature notes the increasing SOE autonomy vis-È-vis the state. On the issue of state–SOE relations, a number of studies find that the emergence of SOEs' commercial interests from the process of corporatization has transformed the firms into market players (Lin, 2008; Steinfeld, 2010; Tsai, 2011). Although SOEs' corporate interests do not necessarily contradict the state's interests, SOEs have the leverage to bypass the state mandates as they pursue their own goals (Naughton, 2008). Moreover, similar to Hellman's (1998) observation of partial reform in transitional economies, Chinese SOEs as early winners of China's gradual reform strategy are capable of altering the industrial reform agenda in favor of their own operations and resisting full-fledged liberalization (Eaton, 2013). Corporate autonomy vis-È-vis the state is further facilitated by China's fragmented bureaucratic governance, which is especially apparent in the sphere of SOEs' offshore ventures (Downs, 2008; Liou, 2009).

On the issue of regulator–business relations, the predominate scholarly view is that Chinese reformers create a new set of economic governance structures in response to the changing state–market relations brought about by the economic reform; the result however is mixed. The design of the new economic governance institutions reflects Chinese reformers' views of long-term development, i.e., strategic industries such as telecommunications adopt re-regulation while non-strategic ones such as textiles adopt liberalization (Hsueh, 2011). Nonetheless, in embracing the "independent regulator model" recommended by most international organizations, China's regulatory agencies in strategic industries fail to deliver effective governance due to various institutional constraints (Pearson, 2005, 2007; Yeo, 2009). As a result, when facing powerful SOEs that are good at maneuvering China's fragmented bureaucracy with conflicting departmental interests, the newly established agencies that lack bureaucratic resources fall into the trap of regulatory capture (Pearson, 2005).

Although the preceding literature make their argument by examining state firms operating in the state-monopolized industries such as airline, electric power, oil, and telecommunications, the dynamics of the changing state–market interactions and ensuing state firms' corporate autonomy also occur in China's construction industry, which operates in a relatively liberalized market environment. China's construction industry is one of a few "pillar" industries (*zhizhu chanye*) in which both state firms and non-state firms are governed by a competitive market. The reform started from the adoption of a national tendering system in 1984, which was designed to govern the bidding process for construction projects. The introduction of the tendering system represents a significant departure in terms of the project allocation mechanism—instead of taking cues from the administrative command, project allocation is determined by market forces such as price. Official statistics show that in 1998, the year before the promulgation of the Tendering and Bidding Law, 40.1% of total completed construction projects had employed the competitive tendering procedure, an increase of 19.6% compared to 1984. [7]

The construction procurement reform, however, did not lead to more efficient management practices or even a more transparent market. Rather, unfair competition as a consequence of corruption benefited construction SOEs. During the pre-reform period, these firms were actually a subdivision of bureaucratic agencies that were responsible for all government-funded construction projects. Even though they were spun off from their supervisory bureaucratic agencies in the reform period, construction SOEs and their middle to senior management still held administrative ranks. As a result, facilitated by their bureaucratic ties, construction SOEs won the majority of projects, especially those initiated by governmental agencies. Moreover, the competitive tendering system and associated legal regulations that were designed to foster firms' sensitivity to market forces gave the firms incentives to adopt irresponsible strategies instead. Because price is the only determinant of the bidding outcome under this new framework, firms were encouraged to submit the lowest price possible at the expense of quality. This detrimental bidding strategy was especially appealing to construction SOEs, which faced fewer financial constraints due to soft lending from the banking system. These firms relied on state subsidies for the financial losses incurred by their below-market bidding prices while they expanded their market share at the same time.

In the late 1990s, official corruption associated with construction projects increased to the point that a new round of reform was deemed imperative by central leaders. [8] Both construction SOEs and non-state construction firms competed to bribe officials involved in the issuance of project contracts and land-use rights. With their superior bureaucratic connections and access to inside information, construction SOEs had the upper hand, and officials took bribes and kickbacks to an alarming degree. Among local official corruption incidents, construction-related cases accounted for 40% (Yang, 2004, p. 187). In 1998, the central government issued the Construction Law and the above-mentioned Tendering and Bidding Law in the hope that unfair competition would be inhibited. Unfortunately, as I illustrate in the third part of this article, the promulgation of these legal documents has yet to generate a significant impact on construction management practice.

While various market-oriented agendas, such as the liberalization of the industry and the competitive tendering system, have been implemented, most construction SOEs are still plagued by inefficient performance. [9] As discussed above, the competitive tendering system actually encouraged construction SOEs to make irresponsible decisions. The practice of submitting the lowest price possible further worsened one of the most pressing issues that construction SOEs encounter: the shortage of capital. [10] As a solution to the systematic problem of undercapitalization in the industry, permanent construction workers have not been recruited since 1984. Yet this expedient could not fundamentally alter firms' deteriorating financial situations. During the pre-corporatization period, state-owned construction firms with the social obligation to stabilize employment were not allowed to cut redundant workforce based on firms' financial calculations. With more competitors joining the game as the state liberalized the industry, construction SOEs found themselves in a difficult situation as they were forced to sustain excessive personnel expenditure. To find an outlet for labor, construction SOEs tried to maximize their project contracts whenever possible without calculating the actual profitability. Combined with the custom of submitting below-market bids, the strategy for contract maximization meant that the more contracts the firms received the more they lost. This non-market conduct, however, was tolerated due to the practice of soft-budget constraints in China's state sector.

Ineffective governance as a result of bureaucratic fragmentation is another reason for the continuation of construction SOEs' inefficient operations. [11] The governance of China's construction industry is torn between a diverse array of bureaucratic agencies: the National Development and Reform Commission (NDRC), the SASAC at the central and local levels, the Ministry of Commerce, the Ministry of Civil Affairs, the Ministry of Housing and Urban–Rural Development (MOHURD, the successor to the Ministry of Construction), the Ministry of Land and Resources, the Ministry of Railway, the Ministry of Science and Technology, the Ministry of Transportation, the Ministry of Water Resources, and the State Administration for Work Safety. As will be shown later, the political process associated with administering the construction industry is fraught with negotiation and compromise among these agencies, accommodating parochial departmental points of view to hammer out the details of the related policy without specifying the distribution of bureaucratic responsibilities. Among these government bodies, the NDRC, the MOHURD, and the SASAC are the lead agencies. Although the SASAC exerts its leverage over construction SOEs' behavior mainly through personnel regulation (which will be detailed in Section 3), both the NDRC and the MOHURD manage the industry through project regulation.

Ideally, there is a division of labor between the NDRC and the MOHURD regarding project regulation, [12] i.e., the NDRC focuses on the development of the construction industry as a whole while the MOHURD sets up operational standards for each construction project. Yet, as will be noted in Section 3, such organizational specialization lacks legal foundations and institutional coordination. At the same time, the authorities in charge of the construction industry have also experienced several rounds of changes in their organizational settings, [13] which further complicate the issue of bureaucratic fragmentation. Before restructuring into a super-ministry named the MOHURD in 2008, the Ministry of Construction (1988–2008) was the primary agency responsible for regulating construction activities during the reform era. Together with the NDRC's long-term development strategy, the Ministry of Construction provided more detailed regulation concerning construction projects' quality and management. In the sixth round of administrative reform starting from 2007, the MOHURD became one of the six super-ministries in China by taking over the regulatory authority of the defunct Ministry of Construction and commanding the new agenda for harmonious development including regulating the real estate market and low-income housing programs. [14] In short, regulatory agencies involved in the construction industry are under constant pressure to adapt to their new organizational setting and tasks without developing stable coordination among themselves. The situation of fragmented authorities becomes more acute because similar institutional changes also took place at the provincial and municipal levels. Consequently, China's construction industry is hamstrung by low-quality buildings, the late completion of projects, and the corrupted tendering practices.

Before closing the context section on China's construction industry, it is useful to have a brief introduction to CSCEC. Although CSCEC was created in 1982, it was composed largely of existing bureaucratic units that had engaged in construction-related activities since the early years of the CCP's rule. For example, its eight engineering bureaus originated from the Ministry of Building Engineering, which operated in the pre-reform period, and the Capital Construction Engineering Corps transferred from the People's Liberation Army (PLA). While CSCEC has been recognized as the "backbone" SOE in a fully competitive construction market, it was not until the creation of SASAC under the State Council in 2003 that a systematic market-oriented agenda was put in place within this sprawling conglomerate. Until 2001, CSCEC still had 1,876 subordinate divisions of different sizes and management structures, among which 1,466 units were affiliated with the eight construction engineering bureaus. Yet productivity is not positively related to the number of these secondary establishments. It is estimated that about 70% of CSCEC's profit came from only one core subsidiary, China Overseas Holdings Limited (China Overseas), based in Hong Kong (Xie, 2007). Hong Kong-listed China Overseas Land & Investment Limited, a flagship secondary company of China Overseas, has been the leading player in China's real estate market and the most profitable company in the CSCEC Group. Except for the remarkable growth of China Overseas, most subsidiaries still focus on labor-intensive projects with lower rates of return.

Under SASAC's instruction and supervision, CSCEC began to trim its loss-making assets, eliminate unnecessary employment, and shut down inefficient operations.[15] Subsidiaries with overlapping functions, a typical problem of the state sector under the central planning system, either went through a merger process or were simply cut off. In 2007, China State Construction Engineering Corporation Limited (China Construction) was created, with CSCEC owning 94% of the total shares and CNPC, Bao Steel Group Corporation Limited, and Sinochem Corporation each owning 2% of the total shares. This is the first time that CSCEC introduced the ownership restructuring program in the hope of fostering firms' commercial behavior. Two years later, CSCEC further diversified its ownership by letting China Construction go public, with an initial public offering on the Shanghai Stock Exchange in July 2009.

In addition to its sprawling ventures in the Chinese domestic market, CSCEC's cross-border operations have a long tradition. Many of CSCEC's subsidiaries, especially those with military backgrounds, served as government agents for African foreign aid programs during the pre-reform era. When CSCEC was created in 1982, it was one of a handful of state firms allowed to venture into overseas markets. Since 1984, CSCEC has been included in the ENR's list of top 225 international contractors based on offshore contracting revenue, and it has stayed on the list up to now. Through foreign aid programs, CSCEC had overseas branches and affiliates in over 150 countries. This so-called "diplomatic arrangement" (*waijiao buju*), guided by China's foreign policy, imposed enormous fiscal burdens on CSCEC. After Sun Wenjie became the head of CSCEC in 2001, he moved to shut down loss-making operations. In a public interview, Sun noted that the transition from "diplomatic arrangements" to "economic arrangements" (*jingji buju*) allowed CSCEC to concentrate on profitable markets.[16]

Today, CSCEC's international contracting is spread over 100 countries, with concentrations in Asia and Africa (see Figure 2). Before the central government targeted the African market after 2000, Asia (Hong Kong in particular) accounted for most of CSCEC's overseas contracts. In 2003, CSCEC resumed its operations in Dubai, following a 10-year hiatus from projects in the Middle East. However, with a large number of international contractors from developed countries in the region, CSCEC's labor-intensive operation does not have a competitive edge in bidding for lucrative high-tech projects. The lack of technological competitiveness is also a major hurdle for CSCEC to operate in the developed region. In 1989, CSCEC obtained its first US contracting project, the Chinese Embassy in Washington, under the name of its overseas subsidiary China Construction America, Inc. While completing over a dozen projects in the United States, CSCEC's turnovers mainly came from building construction and installation and transportation projects such as the 2009 renovation of the Alexander Hamilton Bridge in New York City.

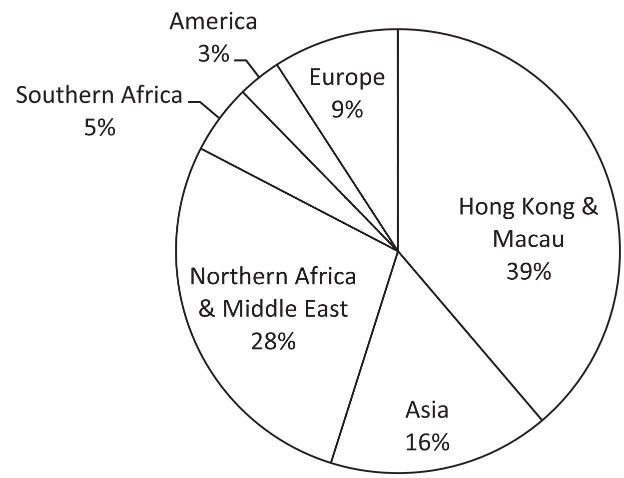

Figure 2. *Geographical distribution of project values in new contracts signed by CSCEC in January to July, 2006. Source: China Chengxin International Credit Rating Co. Ltd. (2006).*

3. RENT-SEEKING AT HOME: MARKET REFORM AND MANAGERIAL BEHAVIOR

The foreign behavior of China's construction SOEs does not come from an institutional vacuum, especially considering the transitional nature of the Chinese economy. The incentive structure of actors involved in the global activities of construction SOEs is constantly reshaped by various domestic reform programs. In this section, I illustrate the domestic determinants of the transnationalization of construction SOEs and focus on one of the major actors involved—managers of construction SOEs.

As noted earlier, most of the reform agendas imposed on the construction industry have been guided by practical concerns. From the Chinese reformers' perspective, pro-competitive policies are introduced as a solution to improve construction SOEs' underperformance. In this context, market-oriented reform is largely defined as the introduction of free competition. Yet, when the market is seen as an institution embedded in a particular set of social and political relations (Hall & Soskice, 2001), simply promoting competition cannot guarantee the emergence of market-oriented behavior. This is especially true when the Chinese state still incorporates SOE managers into the state cadre system as it did under the command economy. The political role of SOE managers in China is institutionalized with formal bureaucratic titles, and managers' continuous bureaucratic leverage makes the pro-competitive reform agenda fall short of its goals. Viewed from the theoretical perspective of a principal–agent relationship, SOE managers as agents enjoy extra bargaining power within the principal government departments that are supposed to monitor the firms' operations. CSCEC's performance problem in many ways demonstrates this observation.

The foregoing does not, however, suggest that corporatized CSCEC is still a political creation as it was under the central planning system. Through the corporatization agenda, CSCEC and its subsidiaries have been transformed into market players and their commercial motive has been created. Ideally, corporatization is expected to foster corporate autonomy by setting up the board of directors as the ultimate authority over corporate operations. Corporate autonomy is achieved when firms' management is only accountable to the board of directors with a focus on commercialization of activities to maximize firms' financial surplus (Naughton, 2007, p. 315). In practice, considered within the context of China's party-state, significant progress toward corporate autonomy vis-È-vis the state has been made (Naughton, 2007, p. 321). However, when the immaturity of China's domestic market institutions barely imposes any market discipline on state firms (Wu, 2005), corporate autonomy together with corporate commercial motive sometimes encourage firms to use strategies other than profit maximization. In the case of CSCEC, market share expansion at best and unreasonable bidding price and vicious competition among CSCEC subsidiaries at worst are often adopted as corporate strategies. In this sense, the interests of the Chinese state as the largest shareholder can hardly be served.

(a) *Pro-competitive reform and non-market behavior*

Most of time during the reform era, central reformers pursued the agenda of liberalization, with an aim to facilitate the effective operation of the construction market. They expected the participation of non-state competitors to create alternatives in the marketplace, giving construction SOEs the impetus to change their inefficient business behavior to survive. Yet with the political ties of construction SOEs and the corresponding soft-lending practice still in place, pro-competitive measures only invited more inefficient use of resources.

Since its creation, CSCEC has been one of the main agents of national fixed-capital investment programs, including airport, railway, refinery plant, power plant, and construction projects such as the Shanghai World Financial Center and the Shenzhou Space Center. Although the central authority has regularly emphasized that CSCEC is a model state firm that succeeds in an open and competitive market, CSCEC's bureaucratic rank as a vice-ministerial SOE guarantees its preferential access to public projects without having to worry about non-state competitors. Such a non-market advantage has existed not only in the early years of liberalization of the industry, but also in the financial crisis of 2008 when CSCEC was one of the major winners in the $586 billion economic stimulus program (China State Construction Engrg. Corp. Ltd., 2010, p. 19).

In addition, pro-competitive reform programs gave rise to a race for market privilege among construction SOEs. Instead of taking a cue from the state under the centrally planned system, pro-competitive regulation means that CSCEC faces challenges from other state firms of the same kind. For instance, China Railway Engineering Corporation, which has a vice-ministerial rank, also enjoys the technological capability and bureaucratic leverage to compete for the same projects as CSCEC. Given that the senior management of these construction SOEs are also occupied by important political figures who are motivated to climb the bureaucratic hierarchy, they have an enormous stake in the success of their firms in bidding for governmental projects. In this sense, the pro-competitive reform agenda has successfully transformed construction SOEs from "project takers" to "project seekers," with firms aiming to maximize their market share at the expense of profitability. As a result, state firms struggle with one another to curry bureaucratic favor not only to win contracts but also for more resources to fulfill these contracts.

This predicament is exacerbated by the large number of state firms operating in the construction market. Many government agencies at the central and local levels had their own construction departments under the command economy and continued to maintain these units under the new guise of corporate organizations during the transition period.[17] Each of these construction SOEs lobbies its principal bureaucratic actors for various preferential treatments, including discount prices of inputs and guaranteed construction projects. For example, construction firms owned by local governments usually undertake construction projects and installation works within their administrative boundaries. Such competition does not only exist between CSCEC and other state firms but also among CSCEC subsidiaries.

Within CSCEC, which was created after the initiation of the economic reform, almost all of the subordinate units have organizational predecessors that date from the planned system. These units are more senior than the CSCEC headquarters in terms of the duration of the bureaucratic organizations. Whenever two or more CSCEC subsidiaries were involved in a given project, this organizational feature created a number of management difficulties for the CSCEC headquarters because the CSCEC was deemed to be less authoritative than the subsidiaries in coordinating corporate affairs. As a CSCEC headquarters manager once complained, "It is very difficult to control these subsidiaries and their branches (*zigongsi*, *sungongsi*) which have a longer organizational history than the parent company. This is just like you intending to instruct people who are your grandpa's age!"[18] The lack of horizontal coordination directly leads to internal strife among subordinate units that still engage in overlapping construction activities left over by the command system.

Although a multi-criteria scheme was introduced to the procurement process in 2000, China's construction industry is still in the process of adapting to international best practices, in which typically the most effective contractors are selected to complete the projects. In China's construction market, however, price is still the main determinant of the bidding outcome. Underbidding is thus still a prevalent phenomenon. When the cost cannot be covered by project revenue, CSCEC project managers will either use inferior materials and equipment to operate the project or more frequently subcontract the work to unqualified but cheap construction firms.[19] The delayed payment of wages is also an inevitable outcome of a shortage of liquidity. CSCEC workers at the construction sites as well as lower-ranking staff members charged with non-labor activities are usually unpaid for their work.[20]

In sum, China's construction industry is by no means a perfectly competitive market in which firms' responsiveness to market forces is encouraged. Simply introducing market-competitive mechanisms cannot change the managerial incentive system and foster commercial-oriented behavior at the firm level. Market-competitive mechanisms need a broad institutional environment to be effective. Such an observation concurs with Steinfeld's (1998) discussion of institutional barriers which prevent insolvent steel SOEs from performing efficiently in a competitive and open sector. Taking this one step further, my study of CSCEC's economic performance shows that its inefficiency cannot only be judged in terms of profitability. Even though all of CSCEC's second-tier subsidiaries declared profits and the number of unprofitable subsidiaries at the third tiers decreased from 50 to 23 (Xie, 2007, p. 19), all the non-market behavior mentioned above frequently frustrates the genuine development of market mechanisms in the construction industry.

(b) *The dual roles of CSCEC managers and the powerful bureaucratic lobby*

Examining CSCEC's rent-seeking behavior from the theoretical perspective of principal–agent relationships, the firm's opportunism is a product of an imperfect information environment that frustrates effective monitoring from Chinese regulators. However, given that CSCEC managers are under the control of the CCP personnel management system, why do they not worry about the political consequences of the firm's opportunistic behavior? Ironically, it is the incorporation of SOE managers into the state cadre system that was designed to control the SOE sector that facilitates such opportunism. Two points need further elaboration.

First, CSCEC managers' bargaining power vis-È-vis state regulators comes from their institutionalized political positions. It is generally observed that SOE managers are economic actors, but they are political officials even more so (Kornai, 1992, p. 505; Waterbury, 1993, p. 127). Moreover, Chinese SOE managers are given administrative ranks and managed as government bureaucrats. For example, central SOEs' top executives are listed on the CCP's *nomenklatura*,[21] and the general manager of CSCEC is vice-ministerial ranked by the CCP Organization Department (CCPOD). Other senior to middle managers in CSCEC are ranked as bureau-level (*juji*) to department-level (*tingji*). Working in China's largest construction SOE and being administratively ranked, CSCEC managers are politically motivated in the sense that they perform their tasks with an eye to moving upward in the bureaucratic hierarchy. This also means that managerial behavior is dictated more by political logic and less by economic logic. When the two behavioral strategies are in conflict with each other, the former always comes first in managers' minds. The abovementioned managerial pursuit of expansionary turnovers regardless of profitability is a good example. But why do these politically powerful managers choose to protect firms' commercial gains even if it requires them to engage in rent-seeking? This leads us to the second point.

Second, CSCEC managers' economic performance has become an essential asset for their career promotions during the post-corporatization period. As pointed out before, construction SOE managers face multiple state regulators that assign them different or even conflicting tasks. However, among these regulators only the SASAC has both routine evaluations of managerial economic performance and the right to suggest managerial appointments to the CCPOD according to the evaluation. Even compared with the NDRC, one of the most powerful bureaucratic agencies in China and which provides general guidelines for the development of the construction industry as a whole, the SASAC's routine evaluation system is more concrete and more binding on managerial behavior. Aiming to improving the value of state assets, since 2004 the SASAC has established a managerial evaluation system that relies on indicators of the total profit and the rate of return on net assets.[22] In 2009 the system further incorporated the measurement of economic value added (EVA), which put more emphasis on profits rather than sales. Based on the preceding schemes, senior managers of the state firms under the jurisdiction of the SASAC have categorized five classes from A to E, which in turn links to managerial bonus and career development.[23]

Most importantly, the SASAC's nomination of manager candidates to the CCPOD (according to the SASAC's evaluation system) is increasingly institutionalized. Since the creation of the SASAC in 2003, its First Bureau for the Administration of Corporate Executives has cooperated with CCPOD's Bureau of Enterprises Cadres (i.e., the Fifth Bureau) to select top leaders of 53 vice-ministry-level state firms, including CSCEC's chief executive officer. Corporate leaders in central SOEs other than these 53 firms are managed jointly by the CCPOD and SASAC's Second Bureau for the Administration of Corporate Executive. "The Interim Regulation of the Management of Central SOE Leaders" in 2009 formalized the cooperation between the CCPOD and the SASAC in managerial evaluation and standardized the recruitment system, which is designed by the latter. Hence, while the CCPOD maintains the formal authority to appoint SOEs' corporate leaders, its selection is limited to the managerial candidate lists that the SASAC makes.[24] Even in the cases of managerial political promotion in which the CCPOD has monopolized the appointment process, the managerial performance as recorded by the SASAC is still an essential reference.[25]

Such an arrangement gives construction SOE managers an incentive to pursue firms' commercial gains as long as they are not grossly resistant to firms' political mandates. Thus the shift in managers' perception of their dual identities—from a rule-taker who implements political tasks to a rule-maker who negotiates a commercially acceptable mode of enterprise operation—takes place incrementally. The point is that the SASAC's authority in governing construction SOEs is acknowledged not only by other governmental agencies but also by the management of state firms. It is evident from variations in CSCEC subsidiaries' corporate strategies ranging from market share expansion to profit maximization, a result of responding to SASAC's evaluation criteria that are still in the process of being perfected as the corporatization reform advances. Given that the CSCEC group started relatively late in implementing the corporatization agenda, the adaptation to SASAC's pro-market demands in China's immature market environment is thus distributed unevenly among CSCEC's subsidiaries. Nonetheless, it should be clarified that when CSCEC managers identify themselves as corporate executives who protect the firm's commercial interests, their goals are not limited to pecuniary rewards. To put it more precisely, the ultimate concern of these managers is still political advancement within the CCP, which dominates the key aspects of the resource allocation system. In view of this, excellent economic performance is just another essential accomplishment that CSCEC managers need to mount the political hierarchy.

A biographical sketch of CSCEC's senior management can tell us something about the typical career pattern that I have mentioned above. The vocational path of Sun Wenjie, the first president of corporatized CSCEC and chairman of the listed China State Construction Engineering Corporation Limited (China Construction), is pertinent. Before entering CSCEC's senior management, Sun Wenjie was in charge of China Overseas Holding Limited (China Overseas), CSCEC's subsidiary based in Hong Kong. During his tenure, China Overseas Land & Investment Limited, the flagship of China Overseas, became publicly traded in Hong Kong, making it the first state-controlled SOE subsidiary to be listed in the overseas stock market. He further built China Overseas into one of the top real estate companies in Hong Kong, which contributed over 70% of CSCEC's annual revenue. Compared to the large number of CSCEC's underperforming domestic projects, Sun's performance is a remarkable economic achievement. Sun's experience in the Hong Kong market, one of the most competitive economies in the world that allows market forces to play out fully, was his main asset when central authorities searched for top-level managers who not only had party loyalty but also entrepreneurship experience. In 2001, Sun became the head of CSCEC after defeating other candidates who had devoted much of their career to CSCEC's domestic operations. Meanwhile, Mr. Sun was selected by the CCP to be a member of the National Party Congress. In 2007, when China Construction was created from four giant SOEs, [26] Sun Wenjie again took the chief position of this construction arm of the Chinese government.

While there is no precedent for the top management of construction SOEs with good performance moving up to central regulatory agencies, this does not prevent CSCEC senior managers from pursuing political advancement. Rather, a closer scrutiny of CSCEC top executives' profiles reveals that a number of them simultaneously occupy important positions in various quasi-official organizations affiliated with the MOHURD (the successor to the Ministry of Construction). These positions, appointed by and under the direct supervision of the MOHURD, are heavily influential in the making of government policies. CSCEC senior managers with these additional posts are not seen as politically promoted in a formal sense. Yet, when judged within China's political context, their leverage is enhanced with these new titles, which in turn provide the necessary bureaucratic protection for CSCEC's non-market behavior. In this sense, CSCEC top executives constitute a powerful lobby group because their joint affiliations cover almost every aspect of their core businesses, including Expert Committees in the MOHURD, China Highway Construction Association, China International Contractors Association, and China Association of Trade in Services.

The tight connection between CSCEC and these semi-official organizations means that the governance of the construction market is ineffective. In such an environment, the regulatory scheme that is supposed to monitor and discipline CSCEC's conduct instead shields the firm's mismanagement from accountability. CSCEC's lobby is further facilitated by the fragmented structure of the authorities, a hallmark of China's regulatory environment. As noted before, CSCEC's projects usually have to go through multiple "review and approval" processes dominated by a broad array of government agencies. Yet self-preserving bureaucratic agendas among different central regulators lead to regulatory incoherence, leaving room for managerial maneuvering.

A good case was the implementation of the policy "to secure a better balance of development between urban and rural areas and among different regional areas" prescribed in the Eleventh Five-Year Plan starting from 2006. Under NDRC's macro-management with a focus on "development planning" (*fanzhan guihua*), the Ministry of Construction (the predecessor of the MOHURD) was responsible for "urban planning" (*chengshi guihua*), while the Ministry of Land and Resources was in charge of "land management planning" (*tudi liyung guihua*). Specifically, the NDRC divided the whole country into four regions with different development goals to make the best of regional advantages. The execution of these policy initiatives, however, inevitably involved issues of land use and urban planning, which fell under the jurisdiction of the Ministry of Construction and the Ministry of Land and Resources. Ironically, without any substantial concessions after several rounds of negotiation, the only agreement among the three agencies was to maintain the status quo, which means that three sets of conflicting regulations are all applicable. [27]

One might thus infer that CSCEC managers are required to invest endless amounts of time going through a complicated and frustrating bureaucratic process to obtain project licenses. Yet the opposite is true. One CSCEC manager charged with residential building projects put it bluntly: "No matter how complicated the regulation is, maintaining a good connection (*guanxi*) with regulatory agencies is the key. In this respect, you cannot place too much emphasis on CSCEC's bureaucratic ties and administrative rank. For example, the supply of land is now under strict regulation. But we never encounter any difficulty acquiring land that we need." [28]

In conclusion, the state–SOE relationship in the post-corporatization era is far more dynamic and messier than any other stage of the reform process. Interaction between bureaucratic principals and agent CSCEC managers are constantly renegotiated and recalibrated. CSCEC's managerial lobby is facilitated not only by their administrative ranks but also by their joint posts in semi-official organizations. [29] These organizational arrangements, which are a device for the regulators to control activities in the industry as a whole, actually become the shield for managerial opportunism. This mainly explains the continuation of CSCEC's non-market behavior in the post-corporatization period. A comprehensive understanding of the transnationalization of China's construction SOEs is possible only when a full grasp of bureaucratic politics associated with SOE governance is present.

4. CAPTURING MARKET SHARE ABROAD: THE GOVERNMENT-INITIATED TRANSNATIONALIZATION

How does the preceding discussion on principal–agent interactions in China's state sector enable us to understand the government-initiated overseas expansion of Chinese construction SOEs? Similar to their domestic operations, the process of CSCEC's transnationalization reflects the negotiated nature of the state–SOE relationship, characterized by continuing tensions and struggles between the state and the firm. To the Chinese central government, CSCEC is by no means a faithful policy agent that pursues national goals regardless of potential negative impacts on the firms' financial performance. This is especially true for CSCEC's cross-border projects, where monitoring becomes even more difficult for China's fragmented regulatory system. From national diplomatic strategy to its own corporate strategy, the distribution of CSCEC's overseas operations increasingly reflects that CSCEC managers engage in rent-seeking at home while capturing market share abroad.

As noted in the introduction, the conventional wisdom contends that the Chinese state and its strategic interests are the driving forces behind the transnationalization of Chinese construction SOEs. Thus, for a long time, overseas ventures by Chinese construction SOEs have been accused of serving the diplomatic interests of the Chinese state. This claim is not without merit. According to this view, CSCEC's transnational operations, which are backed by governmental soft lending, are at the heart of China's package of infrastructure development in exchange for much-needed resources. Such "infrastructure for oil" deals have increasingly dominated China's interactions with resource-rich African countries. [30] Nevertheless, the preceding discussion on the reform agenda of China's construction industry implies that domestic economic reform has changed managers' incentive structure and their behavior strategies. This inevitably influences how managers implement state mandates. A detailed examination of the transnationalization of CSCEC reveals that the firm's overseas contracting reflects the conscious decisions of the senior management more than those of state administrators.

To be sure, CSCEC's involvement in Africa is facilitated by favorable Chinese government policy. In addition to project-specific financial backing including export credits and preferential bank loans, CSCEC signed a cooperation agreement with the Export–Import Bank of China (China Eximbank) in 2005. In this agreement, CSCEC was awarded 3 billion dollars to subsidize its overseas expansion in the following five years. In 2010 when the preceding agreement expired, CSCEC signed another strategic cooperation agreement with state-controlled Industrial and Commercial Bank of China Limited, which promises 5-billion-dollar loans to support CSCEC's international operations in the next five years (China State Construction Engrg. Corp. Ltd., 2011). By offering cheap capital, the central policy-makers intend to use CSCEC's transnational ventures to fulfill China's foreign policy goals. Nonetheless, this is just one part of the story. It is misleading to argue that the transnationalization of CSCEC's operation is simply a product of foreign policy just because governmental financial backing is provided. Even in 2006 when China began to adopt the "infrastructure for oil" model to engage with resource-abundant countries in Africa, over half of CSCEC's new contracts still came from the Asian region including Hong Kong and Macau (see Figure 2). In addition, Hong Kong and Macau were the top destinations of CSCEC's contracted projects, a trend that has continued until now.

Moreover, given that CSCEC is held accountable to multiple government bodies, diplomatic and security objectives are by no means the only agendas that push CSCEC to go abroad. In other words, CSCEC's venture decisions reflect the careful calculations of CSCEC management in response to three parallel principal–agent relationships. First, as noted above, CSCEC's offshore expansion is expected to serve China's foreign policy interests as represented by the NDRC, the Ministry of Foreign Affairs (MOF), and the Ministry of Commerce (MOC). Under the NDRC's macro-level guidelines, the other two agencies cooperate with each other to come up with a substantive working list for CSCEC to follow. At the same time China's embassies, under the administration of the MOF, will provide CSCEC with various forms of assistance to enter local markets. Additionally the Department of Aid to Foreign Countries at the Ministry of Commerce plays a critical role in coordinating CSCEC and the policy banks. Indeed, this set of agency relationships is well known to outsiders and creates impressions of "Chinese mercantilism."

The second set of government principals is comprised of the State Council, the NDRC, the MOC, and China Eximbank in their capacity to represent the state's interests in the expansion of market shares. In the late 1990s, the State Council began promoting international contracting projects, which resulted in increasing exports of construction machinery and domestic materials. This goal of "limiting foreign elements" (*kongzhi waiguo chengfen*) has been one of the most important determinants of whether a given project could obtain a preferential loan from China Eximbank (Li, 2001, p. 28).[31] In 2003, the NDRC issued a document advocating Chinese firms' overseas expansion, which can drive exports of domestic technology, products, machinery, and labor services, with the aim of lessening the domestic pressure of redundant workforce and industrial overcapacity. The next year, NDRC revised the document to accommodate changes brought about by the offshore ventures of Chinese firms.[32] It should be noted that the subagencies within the NDRC and the MOC that pursue the agenda of market expansion through CSCEC's global transactions are different from those that seek to advance foreign policy interests through the same transactions. More precisely, in terms of CSCEC's offshore operation, both the NDRC and the MOC are torn between two different, if not conflicting, state agendas. In the absence of institutional coordination, while the Department of Outward Investment and Economic Cooperation at the MOC pushes CSCEC to go abroad for the sake of market shares, the Department of Aid to Foreign Countries at the same agency sees CSCEC as an instrument to build foreign aid programs. Similar intra-agency dynamics can also be found within the NDRC's control over CSCEC's transnational activities.

Finally, CSCEC simultaneously faces the SASAC as its economic principal. Different from MOC objectives to maximize the market share of Chinese products at the aggregate level, SASAC's evaluation system worsens head-to-head competition among SOE managers and their firms. The SASAC, CSCEC's dominant shareholder, has an enormous stake in the profitability of the firm's offshore projects. With the progress of SOE reform, the SASAC is becoming a much stronger and assertive principal over CSCEC's assets.[33] Coordination meetings preparing Chinese senior officials for trips to Africa best illustrate the SASAC's growing leverage over CSCEC's decision to venture abroad. During the meetings, managers from construction SOEs that were selected as development assistance project contractors bargain with authorities over the terms of the financial packages. Each enterprise has adopted a firm stance to defend their own budget plans and ensure that their firms receive the most profitable projects.[34] One CSCEC manager who attended the meetings made an impressive entrepreneurial comment:

> Now the SASAC is planning to cut the number of central SOEs. We only have two choices: to be the top three in the sector or to be prepared for a takeover. It is just like a game in which your gains are my losses. It is impossible for us to contract an aid project without adequate compensations. Admittedly, it may leave certain negative impressions if we reject cooperation with other central SOEs in carrying out aid projects just because of profitability. Nevertheless, SASAC can decide our destiny.[35]

Clearly, there is no monolithic state interest in CSCEC's overseas expansion.[36] Each bureaucratic agency seeks to impose parochial agendas on CSCEC's overseas business decisions. Nevertheless, being members of China's bureaucracy, CSCEC and its managers have both the political will and the capacity to expand abroad in their own way. This private agenda, however, has led to more inefficient use of state resources, a common effect of employing the strategies required to survive in a domestic market with less-developed monitoring mechanisms. Given the state subsidy accompanied by official advocacy of construction SOEs' "going out," Chinese contractors tend to use unreasonable bidding prices that are far lower than operating costs to compete in international markets. This bidding strategy has caused most other foreign contractors to withdraw from projects where Chinese contractors participated. This explains why in so many cross-border projects only Chinese contractors stayed in the bidding process to outbid one another at the expense of state funding.[37] It is widely estimated by China's official policy research institutes that each year the fiscal losses incurred by overseas competition among Chinese firms have reached around RMB 2–3 billion.[38] Compared to other transnational ventures, China's international contracting sector holds the lowest operating margins and the highest unit costs leading to poorer construction quality and increasing labor disputes. This also damages the corporate images of China's construction companies and prevents them from both cooperation within the industry and cross-industry collaboration.[39]

More than a few CSCEC managers acknowledged a popular managerial mentality that creates this inefficiency: "It is totally understandable that the first couple of international projects operate at losses. Our goal is very clear: market shares. We are used to engaging in a price war with our domestic rivals. We see no reason to change it as long as we grab significant market shares."[40] To a large degree, such a mentality directly results in vicious competition among CSCEC's subsidiaries for international projects, such as building construction in Botswana.[41] Given that the CSCEC headquarters lacks adequate authority to coordinate subsidiaries' activities, such head-to-head rivalry has negative impacts on maximizing market shares at the aggregate level while wasting corporate resources directly and state assets indirectly. Policy-makers, therefore, repeatedly call for cooperation and coordination among Chinese contractors. Yet the aforementioned fragmented regulatory framework has little effect on CSCEC's behavior at the firm level.

5. CONCLUSION

With the progress of the "Going Out" (*Zouchuqu*) strategy,[42] the increasing global presence of Chinese ventures has captured worldwide attention. It is commonly believed that the transnationalization of Chinese SOEs is a coordinated state action, neglecting the role of firms in making business decisions. Contrary to popular belief, this article finds that the state-backed "Going Out" strategy is far from state-dominated, and my principal–agent analysis of CSCEC's transnationalization fleshes out the "negotiated nature of the state–SOE relationship." Regarding SOE managers, this article finds that their administrative ranks and associated bureaucratic connections are powerful bargaining chips when navigating through China's gigantic bureaucracy to get away with pursuing firms' financial interests.

What is the implication of such findings for the development of host countries? I would argue that politically powerful and commercially driven Chinese SOEs hardly bring sustainable development to host countries as China's foreign aid programs promise. Being the major agents of China's foreign aid programs, construction SOEs are heavily involved in the development of infrastructure in developing markets such as Africa and Southeast Asia. Yet, without proper regulations from both host countries and the home country, these firms just replicate their domestic operational modes in overseas projects—i.e., blind expansion at the expense of project quality. Moreover, numerous negative trends associated with the unreasonable bidding wars adopted by most Chinese construction SOEs have begun to emerge recently, such as failure to complete projects by their bidding prices and tender collusion, *etc.*[43] This is by no means a welcome development to decision-makers in Beijing who worry about the adverse impact on China's relationships with the host countries.[44]

In addition to the implications for host country development, I would also argue that a strong public ownership sector that is capable of bargaining and negotiating over the terms of state regulations will become an obstacle to Chinese reformers' expectations of more sustainable development with equity. The SOE reform agenda after China's entry into the World Trade Organization puts the Chinese state at the core position to engineer economic growth by assigning a dominant role to public ownership. Pei (2006) and Huang (2008) present a large body of evidence that such a development model inevitably encounters the issue of corruption as the state's grabbing hand continues to be empowered. While concurring with their observations, my study further implies that the competitiveness gap between the public and private sectors in China is exponentially enlarged. Such a development need not be a worrying concern as long as the SOE sector performs its distributional role in society. Unfortunately, Chinese reformers have made slow progress with the reform of the dividend policy, and by any standard the dividend payouts from Chinese SOEs are very low, which help little in filling holes in the social safety net and wealth gap.

Over the course of economic reform, Chinese reformers mindfully retained strategic assets under public ownership for the sake of the CCP's political interests. The incorporation of SOE managers into the state cadre system provides the state with a primary channel through which to ensure the fulfillment of SOEs' political function. Such personnel control, as identified by many China scholars, builds the groundwork for the reign of the CCP (Shambaugh, 2008). It also suggests strong state interference in SOEs' corporate affairs—not simply because the state can remove SOE managers from their positions in the firms, but more importantly because the state has the final say about managerial career prospects along the party/bureaucratic ladder.

Yet when the preceding personnel appointment system is examined in the context of economic reform intended to foster SOEs' commercial interests, the relationship between the state and SOEs becomes more complex than any existing literature on the transnationalization of the Chinese SOE sector will acknowledge. As I have elaborated through the case study of CSCEC, while the selection of SOE senior management is subject to the *nomenklatura* system, the ensuing managerial administrative ranks actually give them considerable bureaucratic leverage to bargain with policymakers. With bureaucratic positions that are equivalent to central regulators, senior managers in CSCEC make every effort to protect the firm's market privilege gained from partial economic reform. This tendency becomes even more apparent when SOE managers' economic performance becomes increasingly important in deciding their career advancement.

In the language of principal–agent relationships, this institutional arrangement suggests that agent SOE managers are bestowed equal bargaining power to evade principal regulators' monitoring. Seen from this light, the state's control over SOEs in China's authoritarian political system is not as tight as one might expect. The state's grip on SOEs' operations is further weakened by the conflicting interests of the many bureaucratic agencies connected to the SOEs, frustrating the emergence of a consistent regulatory framework. In the meantime, China's half-way economic reform has invited resource misallocation and price distortion in the marketplace, providing fertile ground for managerial rent-seeking. From this institutional environment comes an apparent paradox. The personnel appointment system designed to control SOE managers suggests that effective monitoring of SOEs' operations is nearly impossible. This dilemma is an institutional embodiment of the incompatibility between SOEs' political and economic functions. It is against this backdrop that the transnationalization of SOE operations was initiated. Consequently, any meaningful analysis of international ventures by Chinese SOEs must seriously take into account the domestic conditions under which these firms operate.

NOTES

1. Chinese reformers liberalized the construction industry as early as the 1980s, when free competition from non-state firms was introduced. *Non-state firms* here not only refer to private firms but also include collective firms, foreign-invested enterprises, and joint ventures. Private and collective-owned construction companies, as shown in the first national economic census conducted in 2004, reached 52.2% and 11.6% of the total number of enterprises operating in the sector, respectively. For statistical details, see "*Jianzhuye yichengwei mingfuqishi de zhizhu chanye*" [The construction industry has already been the genuine pillar industry], http://www.mohurd.gov.cn/xytj/tjzldtyxx/gjtjjxx/200609/t20060926_160470.html, accessed March 23, 2012. The analysis in this report is based on the data collected by the first national economic census.

2. See, for example, Centre for Chinese Studies (2006) and Corkin (2011).

3. See, for example, Foster and *et al*. (2008).

4. See, for example, "Bridge Repairs by a Company Tied to Beijing," *New York Times*, August 10, 2011, http://www.nytimes.com/2011/08/11/nyregion/china-construction-co-involved-in-new-yorks-public-works.html; "Construction: Chinese Builders Target Contracts in EU and US," *Financial* Times, September 15, 2011, http://www.ft.com/intl/cms/s/0/3529578c-d7f9-11e0-a5d9-00144feabdc0.html, accessed April 3, 2012.

5. For detailed accounts of the transnationalization of China's national oil companies, see Liou (2009).

6. The five vertically integrated construction companies are CSCEC, China Railway Construction Corporation, China Railway Group Limited, China Communications Construction Group, and China Metallurgical Group Corporation.

7. See "*Xinzhongguo 50 nian xilie fenxi baogao: jianzhuye buduan zanqiang*" [The analytical report series on the founding of new China for fifty years IX: continuously strengthen the construction industry], http://www.stats.gov.cn/tjfx/ztfx/xzgwsnxlfxbg/t20020605_21426.htm, accessed May 10, 2012. However, according to a leading finance journal in China, even in 2012 the tendering system and the Law exist in name only. See "*Zhaobiao toubiaofa weihe luokong*" [The reason why the tendering and bidding law does not work], *Xinshiji*, No.8, 2012, http://magazine.caixin.com/2012-02-24/100360430.html#comment_top, accessed May 10, 2012.

8. For details on the severity of official corruption on construction projects, particularly at the local level, see Yang (2004, pp. 186–198)).

9. According to China's official data, the profit margin in China's construction industry was only 3.6% in 2011. See "*Wouguo jianzhuye chanzhi lirunlu jinwei 3.6% in 2011*" [The profit margins of the construction industry profit was only 3.6% in 2011], http://news.dichan.sina.com.cn/2012/05/16/492543.html, accessed May 22, 2012.

10. Interview with a CSCEC manager in Beijing: May 2007; Interview with a construction SOE manager in Shanghai: July 2007.

11. For an analysis of fragmented authoritarianism, see Lieberthal and Oksenberg (1988).

12. For details on division of labor between the SDPC (the predecessor of the NDRC) and other central agencies for macroeconomic governance, see Lin (2007).

13. During the pre-reform period, the recurrent adjustment of governance institutions reflected the institutional instability resulting from political struggles within the Chinese Communist Party (CCP). For instance, the State Construction Commission was created and removed three times in just 7 years during 1954–61.

14. In addition to the existing NDRC, five super-ministries emerged from the 2007 administrative reform are: the MOHURD, Ministry of Industry and Information, Ministry of Transport, Ministry of Human Resources and Social Security, and Ministry of Environmental Protection.

15. See SASAC's report on CSCEC's reform agenda, "*Guoyou qiye zai wanquan jingzheng hangye he kaifang guoji shichangzhong dayoukewei: zhongguo jianzhu zonggongsi gaige fazhan jingyan*" [The achievement of SOEs in a competitive sector and an open international market: the reform agenda and development of CSCEC], http://www.sasac.gov.cn/gzjg/xcgz/200609280184.htm, accessed May 23, 2012.

16. See "*Zhongjian: xiayige 500 qiang?*"[CSCEC: the next top 500?], *Caifu* [Fortune China], October 1, 2004, http://www.fortunechina.com/fortune500/content/2004-10/01/content_9567.htm, accessed July 17, 2012.

17. For example, Beijing Municipal Construction Commission restructured its secondary construction units into four main construction companies with hundreds of subordinate units and installation companies. Among these corporate organizations, Beijing Urban Construction Group was the operator of 19 Olympic projects such as National Stadium and Olympic Village in Beijing.

18. Interview with a CSCEC manager in Beijing: August 2007.

19. Interviews with CSCEC managers, Beijing: May 2007; July 2011.

20. Starting from 1984, construction SOEs have only recruited workers on a temporary basis to lessen the welfare burden. Since then, unskilled migrant workers from the poor rural areas have become a reliable source of cheap labor.

21. The term *nomenklatura* originally refers to the ruling class in the Soviet Union. According to Lieberthal, "the *nomenklatura* system consists of lists of leading positions over which Party units exercise that power of appointment and dismissal, list of reserve candidates for those positions, and rules governing the actual process of appointments and dismissals…All positions of real importance in China fall under the CCP's *nomenklatura*" (Lieberthal, 2004, pp. 234-235).

22. See the SASAC, "*zhongyang qiye fuzeren xinchou guanli zhanxing banfa* [*Interim measures for remuneration management for central state-owned enterprise executives*]," http://www.sasac.gov.cn/n1180/n20240/n7291339/11863882.html, accessed March 4, 2013.

23. See the SASAC, "*zhongyang qiye fuzeren jingying yeji kaohe zhanxin banfa* [Interim procedures on the evaluation of central SOE leaders' financial performance]," http://www.gov.cn/flfg/2010-01/22/content_1517096.htm, accessed July 12, 2012; the State Council, "*Zhongyang qiye lingdao renyuan guanli zhanxin guiding* [Interim regulation on the management of central SOE leaders]," http://www.gov.cn/jrzg/2009-12/30/content_1500198.htm, accessed July 12, 2012.

24. Interviews with official policy analysts in Beijing: July 2011; Interview with a SASAC official in Beijing: July 2011. There are rare exceptions that when princelings are appointed as the CEOs of the central SOEs,

SASAC's list of nomination plays little role in selecting corporate leaders. Li Xiaopeng, son of China's ex-premier Li Peng and the former CEO of Huaneng Group, is a famous example.

25. Interview with a researcher in .the Development Research Center of the State Council in Beijing: August 2011. See also Downs' (2011) study of the oil executive reshuffle in 2011.

26. CSCEC controls 94% of China Construction's shares, with China National Petroleum Corporation, Sinochem Corporation, and Baosteel Group Corporation each retaining 2% of the firm's shares.

27. "*San da guihua san zhang pi: fazhan guihua xianru 'chelunzhan' jiongjing*" [Three sets of planning with three schemes: development planning falls in the dilemma of 'wheel wars'], *Liaowang* [*Outlook Weekly*], http://www.china.com.cn/chinese/sy/1026283.htm, accessed July 12, 2012.

28. Interview with a CSCEC manager in Beijing: August 2007.

29. An increasing number of studies have addressed Chinese firms' growing ability to lobby in China's authoritarian political system. See, for example, Kennedy (2005) and Deng and Kennedy (2010) on lobbying in sectors that are not monopolized by SOEs; Downs (2008) on lobbying in the petrochemical industry which is monopolized by three national oil companies.

30. In recent years, China has become the primary investor and financier of African infrastructure projects, mainly through loans from the Export–Import Bank of China. This "infrastructure for oil" arrangement is labeled the "China-Angola cooperation model," which soon become China's official prescription for SOEs' overseas expansion. For details, see Lee and Shalmon (2008).

31. For details of how the China Eximbank's export credit business helps China's contractors in venturing abroad, see Lu (2005).

32. For the document, see http://wwwold.sdpc.gov.cn/b/b200411011.htm, accessed October 9, 2012.

33. Wang, Guthrie, and Xiao (2012).

34. Interview with an official policy analyst in Beijing: May 2007.

35. Interview in Beijing: July 2008. Instead of making efforts to consolidate central SOEs into the top three of their respective sectors guiding by the notion of "stronger and bigger" during the 11th Five-Year Plan (2006–2010), the SASAC has adjusted its strategy to "stronger and better" during the period of the 12th Five Year Plan (2011–2015). In so doing, the SASAC intends to incentivize managers to pursue profits rather than revenues and thus to avoid irrational purchasing decisions and blind expansion. As of now, the SASAC has no plans for restructuring construction central SOEs. For details, see "*Wangyong* zai zhongyang qiye fuzheren huiyishang de jianghua: jianchi kexue fazhan, zhuoli zuoqiang zuoyou, peiyu juyou guoji jingzhengli de shijie yiliu qiye " [Wang Yong's talk at the central SOE leaders' meeting: insist on scientific development, make effort to be stronger and better, cultivate world-class enterprises with global compatibility], http://www.sasac.gov.cn/n1180/n1566/n259760/n264785/12749140.html, accessed March 18, 2013.

36. Gill and Reilly (2007) reached a similar conclusion concerning China's Africa Policy and related business operations.

37. Interviews with construction SOE managers in Guangdong: July 2009.

38. For details, see, "'*Zouchuqu' qiyejian xietiao burong hushi*" [The significance of coordination among enterprises engaged in going out], *People's Daily Online*, May 8, 2007, http://mnc.people.com.cn/GB/5704085.html, accessed July 16, 2012.

39. For details, see "Woguoqiye mianlin kuaguo jingying jiyu, guonei wuxujingzheng cheng zhang'ai" [Local enterprises face opportunities for overseas operation, domestic unruly competition forms the barriers], *Liaowang* [*Outlook Weekly*], http://news.sina.com.cn/c/sd/2010-12-04/003621579733.shtml, accessed August 3, 2013.

40. Interviews in Beijing: May 2007.

41. Interview with an official policy analyst in Beijing: June 2007.

42. The "Going Out" strategy evolved from the notion of "taking full advantage of the two markets – both domestic and foreign markets," proposed in the 15th National Congress of Chinese Communist Party in 1997. The strategy encouraged Chinese enterprises to prepare to go abroad in response to global competition in the wake of the Asian financial crisis and was formally incorporated into the 10th Five-Year plan in 2001.

43. See, for example, "European Project Trips China Builder," *The Wall Street Journal*, June 4, 2012, http://online.wsj.com/article/SB10001424052702303459004577363842916410790.html; and "*Integrity vice presidency annual report, fiscal year 2009*," http://siteresources.worldbank.org/INTDOII/Resources/WBG_INTAnnualReport2009_web.pdf, accessed March 10, 2013.

44. For example, the NDRC's view can be found in "*Zhongfei touzi hezuo yingshixian shi tupo*" [To break through the ten limitations on China–Africa investment cooperation], *Zhongguo touzi* [China Investment], http://www.chinainvestment.com.cn/www/NewsInfo.asp?NewsId=8818, accessed March 10, 2013.

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