

RESEARCH ARTICLE

Eldest Sons of the Republic: State-owned Enterprise Executive Management System with Chinese Characteristics

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Abstract

Some cadres receive promotions, whereas others do not. This study explores the Chinese Communist Party's (CCP) personnel control over the central state-owned enterprise (SOE) leaders from the Hu era to the Xi era. An analysis of the résumés and careers of SOE leaders reveals that the CCP has established a dual-track system to manage enterprises with different functions. This system employs two types of incentives: promotion incentives for leaders of eldest-son enterprises associated with national security, and salary incentives for leaders of other enterprises. Through the dual-track system, the CCP aims to influence the career trajectories of SOE leaders and address conflicts of interest in the principal-agent relationship. This study also investigates the individual characteristics of SOE leaders, including their political qualifications, professional qualifications and ages. The results indicate a tendency towards specialization and institutionalization in central-enterprise leaders, even during the Xi era.

摘要

本研究通过分析从胡锦涛到习近平第一任期，央企领导人的履历和职业生涯，发现存在对央企领导人进行分类管理的双轨管理制度。双轨制区分两种激励：晋升用于激励有关国家安全的「长子企业」，薪酬用于激励其他企业。中共通过双轨制，影响央企领导人的职涯选择，使党国与央企领导人之间的利益一致。此外，双轨制加强党的监督并将国家控制更深入公司治理，这些改革强化了国有企业作为经济管理和政治治理工具的策略定位。

Keywords: cadre management; Chinese Communist Party (CCP); dual-track management system; State-owned Assets Supervision and Administration Commission (SASAC); state-owned enterprises (SOEs)

关键词: 干部管理; 中国共产党 (CCP); 双轨管理制; 国资委 (SASAC); 国有企业

Chinese state-owned enterprises (SOEs) have garnered considerable attention because of their numerous assets.¹ Unlike private corporations, which primarily focus on making profits, central SOEs juggle a mix of political and economic objectives, such as maintaining employment rates, guiding investment, stabilizing prices and even facilitating economic growth.² However, not all central SOEs share the same mandate to perform governmental functions; some are more politically

1 The central SOEs referenced in this study are those under the oversight of the SASAC of the State Council. As of 2022, these central SOEs collectively held assets totalling 109.4 trillion yuan, marking a 7.1% increase from the previous year. See “Guowuyuan guanyu 2022 niandu guoyou zichan guanli qingkuang de zonghe baogao” (Comprehensive report of the State Council on the management of state-owned assets in 2022). [www.npc.gov.cn](http://www.npc.gov.cn/npc/c2/c30834/202310/t20231027_432641.html), 27 October, http://www.npc.gov.cn/npc/c2/c30834/202310/t20231027_432641.html. Accessed 2 December 2023.

2 Bai, Lu and Tao 2006; Lam, Rodlauer and Schipke 2017, 3089.

driven, whereas others are more focused on achieving economic milestones. SOEs with a stronger emphasis on political objectives are sometimes referred to as the “eldest sons of the Republic” (*gongheguo de zhangzi* 共和国的长子). These enterprises have contributed substantially to the political and social stability of the People’s Republic of China. Examples of such SOEs include the China First Automotive Works Group Corporation (*Di yi qiche* 第一汽车), the China Grain Reserves Corporation (*Zhong chu liang gongsi* 中储粮公司) and the China National Petroleum Corporation (*Zhongguo shi you* 中国石油).

The leaders of central SOEs operate under the nomenklatura system, making the Chinese Communist Party’s (CCP) personnel control a critical element in the governance of these enterprises. As a result, central SOE leaders have two roles: they are both managers and Party cadres, enabling the CCP to control SOEs through the appointment of their executive leaders.³ In enterprises with established boards of directors, the chair of the board holds the position of leadership for the organization. In contrast, in the absence of a board of directors, the general manager assumes the primary leadership role. Virtually all leaders of central state-owned enterprises (SOEs) also serve as the secretary of the Party committee (group) within their respective organizations.⁴ These individuals control decision making in the commercial enterprise hierarchy.

Central SOE elites and their personnel control mechanisms have not received the research focus they deserve. The current understanding of Chinese corporate elites – including their backgrounds, processes of selection and career trajectories – remains limited.⁵ The personnel control mechanisms within central enterprises operate through a dual-track management system, which is guided by the classification of their functions. The Chinese government mandates that the leaders of “eldest-son” enterprises, which serve primarily political functions, should possess superior political qualifications. As a result, these leaders are highly responsive to political incentives, leading to a greater likelihood of their entering Party or government departments. Conversely, for the leaders of non-eldest-son companies – whose careers are determined solely by the success of their enterprises – the government demands stronger professional qualifications. The government employs salary incentives to influence these leaders.

This study conducts a comprehensive review of the biographies and career paths of all leaders of central SOEs from 2003 to 2018, offering empirical evidence of how the CCP personnel control mechanism functions.⁶ The research synthesizes the distinctive features of central enterprise leaders and explores the selection processes for various types of corporate executives. It then explores the career paths of the leaders of eldest-son enterprises, comparing them with their counterparts in non-eldest-son companies. Additionally, the study undertakes a comparative analysis of the characteristics of central SOE executives during the Hu Jintao 胡锦涛 administration and Xi Jinping’s 习近平 first leadership term. The findings indicate that the CCP prioritizes professional qualifications over political qualifications for executives, a trend that continues into Xi’s tenure. Moreover, top-tier executives of eldest-son companies serve as a talent pool for the CCP and are frequently appointed to positions within the Party or government.

The remainder of this paper is organized as follows. First, it explores the correlation between cadre promotion and the dual-track management system to identify the personnel control mechanism in central SOEs. Next, it introduces the oversight system governing central enterprises and identifies eldest-son enterprises by determining the administrative levels and functionalities of central SOEs. Finally, it presents a systematic review of the résumés and career trajectories of both the leaders of eldest-son and non-eldest-son enterprises.

3 Burns 1994; Chan 2004; Liou 2014.

4 State Council 2017.

5 Lin, Li-Wen 2017; Lin, Li-Wen, and Milhaupt 2013; Lee, Chengpang, and Zhang 2024; Walder 2011.

6 The leaders of central SOEs are governed by the SASAC under the State Council. Therefore, the timeline of the data is based on Hu Jintao’s two presidential terms and Xi Jinping’s first presidential term.

Dual-Track Management System of Central SOE Leaders

Cadre promotion

Some individuals ascend easily in their careers, while others struggle to do so. The progression of cadres has consistently been a critical area of study in research on the Chinese political elite. Scholars have dissected the dynamics driving the rise of cadres within the CCP. Studies on the promotion of CCP political elites can be broadly categorized as focused on the individual level or the institutional level. Research at the individual level focuses on the impact of officials' political and professional qualifications as well as the role of personal networks in facilitating career advancement.⁷ Institutional studies highlight that local governments' economic performance, particularly in terms of gross domestic product growth, exhibits a positive correlation with official promotions. Li-An Zhou describes this mechanism as a promotion tournament model.⁸ Some studies have explored the hierarchical levels of officials and noted that performance and personal networks for political mobility are not mutually exclusive and that they have different effects on the promotion of officials at each level.⁹

Previous studies have predominantly focused on the career advancement of local government officials, often overlooking cadres from SOEs. However, many officials with SOE backgrounds have ascended to senior positions within the government. The state-owned sector wields considerable political influence, as demonstrated by its representation on the Central Committee, which peaked at 10.1 per cent.¹⁰ From the establishment of the State-owned Assets Supervision and Administration Commission of the State Council (SASAC) up until 2016, nine central SOE leaders were promoted to government positions through the outstanding performance of their enterprises.¹¹ The latest cases include Zhang Guoqing 张国清 and Ma Xingrui 马兴瑞, who both come from central military-industrial enterprises and joined the 20th Politburo in 2022. Their rise underscores the growing political influence of central SOE leaders. Yet it remains unclear whether their promotion qualifications align with those of Party and government cadres or are based on other, unspoken criteria.

Research on the personnel appointment systems of central SOEs has revealed that the majority of central SOE leaders are typically promoted from within the organizations themselves or from ministries of the State Council. Given that SOEs function as part of the cadre system, their incentive structures are closely tied to the party-state, making promotion a significant incentive.¹² This perspective is supported by other studies that use data on executive turnover within SOEs to analyse the rise of enterprise leaders. These studies indicate that primary enterprise directors, similar to local officials, rotate between Party and government appointments. This rotation allows them to accumulate political capital, which in turn helps to propel them upward in the political hierarchy.¹³ Additionally, research on cadre promotion has shown that, unlike leaders in other sectors, directors of central SOEs are required to undertake horizontal transfers to Party and government roles at equivalent levels.¹⁴

Two distinct reasons have been proposed to explain the motivations behind the promotions of central SOE leaders. The first is related to political or corporate performance;¹⁵ the second involves non-institutional factors and political conditions. Informal connections between SOE leaders and

7 For studies on cadres' professional and political qualifications, see Zang 2006 and Li, Cheng, and White 2009. For studies on relationships, see Li, Cheng 2001.

8 Bo 2019; Li, Hongbin, and Zhou 2005; Zhou 2007.

9 Choi 2012; Landry, Lü and Duan 2018.

10 Zhang, Zhang and Liu 2017.

11 Liou and Tsai 2017.

12 Lin, Li-Wen 2017; Liou and Tsai 2016.

13 Brødsgaard 2012; Lin, Nan 2011.

14 Leutert 2018.

15 Liou and Tsai 2017; Liu and Zhang 2018; Yang, Wang and Nie 2012.

political elites can lower the likelihood of SOE leaders transitioning into government. Additionally, central SOE leaders who have accumulated government experience and received Party training are more likely to advance politically.¹⁶ Although these factors are significant, this study proposes that any assessment of the promotion of central SOE corporate leaders should also consider the functional classification of the enterprise.

Political tasks and incentives

The prerequisites for promoting leaders of central SOEs differ to those for promoting local officials at the institutional level. This is because central enterprises have twin priorities: their governmental functions and their corporate performance. Under China's planned economy, SOEs operated as production units subordinate to the government. Even in the wake of China's economic reforms, SOEs continued to retain certain governmental responsibilities, such as ensuring employment and stabilizing prices.¹⁷ Studies on SOE reform indicate that the Chinese government faces the challenge of balancing corporate profitability with social stability. To address this, the government has mandated that central SOEs will remain state-owned, even though this decision may negatively impact their corporate performance. As a result, these enterprises continue to play a crucial role in driving economic growth.¹⁸

Research investigating energy-saving and emission-reduction policies reveals that an enterprise's affiliation can influence the effectiveness of policy implementation. SOEs outperform private enterprises, and central SOEs outperform other SOEs, in implementing such policies.¹⁹ This indicates that central SOEs, in addition to being part of the government, act as key agents in policy implementation. The more political roles that central enterprises perform, the more they reinforce the legitimacy of the party-state. Consequently, central SOEs receive government subsidies to compensate for the losses they incur while working towards the public good.²⁰ However, not every company has the same level of political responsibility. Companies that are connected to national or economic security, such as the China National Petroleum Corporation and Sinograin, fulfil more political tasks. These enterprises are predominantly state owned or state controlled,²¹ and state-established management evaluation and incentive mechanisms have been developed to guide them towards the successful completion of their assigned missions.²²

Beyond exercising ownership control, the Chinese government has increasingly intervened in corporate operations. SASAC has ordered a reform of boards of directors, mandating that the chairperson of a central enterprise must concurrently serve as the secretary of the Party committee. This reform is aimed at mitigating the conflict between enterprises and the government in decision making and strengthening the Party's oversight of enterprises. More critically, such reform would grant political decision makers the power to control boards of directors and assign objectives to enterprises.²³ In 2004, SASAC released a list of primary business categories for central SOEs and established a classification management system for these enterprises. This system categorized central SOEs into two groups, "key industries and sectors" and "others," thereby establishing a dual-track approach for evaluating corporate performance.²⁴ The 2015 SOE reform guidelines called for

16 Leutert and Vortherms 2021.

17 Naughton 2007, 79–83.

18 Bai et al. 2000; Bai, Lu and Tao 2006.

19 Liang and Ma 2020.

20 Bai, Lu and Tao 2006; Wang 2014.

21 Mattlin 2009.

22 The Chinese government stipulates that assessments of key enterprises must prioritize policy business and that a special incentive mechanism must be formulated. See "Economic performance of state-owned and state-holding enterprises in 2017," SASAC, 23 January 2018, http://en.sasac.gov.cn/2018/01/23/c_311.htm. Accessed 20 August 2022.

23 State Council 2017; Naughton 2018, 376–78.

24 SASAC 2004; 2005.

the reform of SOE classifications (*fenlei gaige* 分类改革) at both local and central levels. Although central SOEs were officially categorized, the specific list of company classifications was not publicly disclosed. This dual-track system also led to the emergence of two types of corporate managers: policy-oriented and profit-oriented managers. In terms of incentives, policy-oriented managers have lifelong job security, whereas profit-oriented managers are compensated with market-based salaries.²⁵

Bengt Holmstrom and Paul Milgrom, in their research on incentive mechanisms in principal-agent relationships, find that high-salary incentives are effective when an agent has a single objective and the principal can monitor the agent effectively. However, when the agent is allocated multiple objectives simultaneously, long-term career rewards are more effective in motivating the agent.²⁶ In the context of central SOE management, enterprises classified as “key industries and sectors” are expected not only to be profitable but also to support technical innovation, ensure social stability and participate in national initiatives, such as the Belt and Road Initiative (BRI) and other political projects related to national security.²⁷ Thus, this study argues that long-term career rewards should be offered to the corporate managers of “key industries and sector” companies.

Dual-track management system

China’s dual-track system divides central SOEs into two categories: eldest-son enterprises and non-eldest-son enterprises. Eldest-son enterprises, which are subject to stringent government control, relate to national security. The leaders of these enterprises are offered political incentives designed to strengthen their allegiance to state interests. In contrast, non-eldest-son enterprises, which are not tied to national security, operate in a market environment. The leaders of these enterprises are incentivized by competitive, market-aligned salaries.²⁸ Under the previously implemented administration reform, which separated state administration from enterprises (*zhengqi fenkai* 政企分开), leaders of central enterprises are no longer classified as civil servants (*gongwuyuan* 公务员), yet they still retain their status as Party cadres and hold hierarchical positions within the state structure.²⁹ This dual role gives them a formal equivalency in administrative rank, allowing them to transition between the civil service and enterprise management roles. Therefore, the leadership of central SOEs comprises a mix of Party cadres and corporate managers. Shifting between these identities could impede leaders’ ability to supervise SOEs.³⁰ Furthermore, the government should standardize the roles of central SOE leaders to prevent any individual from simultaneously taking on the roles of player and referee. This would ensure that incentive mechanisms function as intended and support the organization’s goals. The behaviour of these leaders is shaped by the dual forces of

25 Song 2018, 362.

26 Holmstrom and Milgrom 1991.

27 The results of this study indicate that central SOEs have adopted a profit-driven approach, leading to active participation in infrastructure projects under the BRI. Although they may profit from these ventures, their actions can undermine the progress of the BRI. See Lee, Jones, and Zeng 2019.

28 After the implementation of the “Reform plan for the remuneration system of leaders in central enterprises” in 2015, the salaries of leaders in central SOEs remained considerably higher than those of officials at the same level. For example, the chairman of the State Grid Corporation of China, Xin Bao’an, earned an annual salary of 900,000 yuan, which was much higher than the 120,000 yuan annual salary of government officials at the same level. See “Duo jia dianli yangqi gaoguan xin chou gong bu! Guojia dian wang dongshi chang nian xin 90 wan zuigao” (Salaries of several senior executives in major state-owned power companies disclosed! The chairman of State Grid Corporation of China receives the highest annual salary of 900,000 yuan). *Sina*, 1 January 2023, <https://finance.sina.cn/stock/ssgs/2023-01-31/detail-imyczvfw6869928.d.html>.

29 NPC 2018; “Zhonghua renmin gonghe guo qiye guoyou zichan fa” (Law of the People’s Republic of China on State-owned Assets of Enterprises). www.gov.cn, 28 October 2008, https://www.gov.cn/flfg/2008-10/28/content_1134207.htm. Accessed 4 November 2022.

30 Liou 2014.

self-interest maximization and a commitment to achieving the goals that the government sets for businesses.

Different promotion criteria shape the conclusions drawn about central SOE leader advancement. From 2008 to 2011, the average promotion rate for central SOE leaders was 4.24 per cent, which surpassed the 2.5 per cent for government officials of the equivalent rank.³¹ However, that definition of promotion included both administrative promotions and appointments to higher-level SOEs.³² Under a stricter definition that only included formal administrative promotions, the reported promotion rate was significantly lower, at 0.35 per cent.³³ This study argues that enterprise characteristics must be considered when analysing the promotions of leaders in central SOEs. The dual-track management system creates different incentives for these leaders. Eldest-son SOE leaders, who receive political incentives, tend to have higher and more stable promotion rates. Consequently, they closely align their identities with their status as cadres. In contrast, leaders of salary-incentivized enterprises, who face lower promotion prospects, are more likely to identify as managers. Given the limited availability of high-level positions, political incentives play a central role in China's personnel control. As the sole provider of these positions, the government influences the behaviour and expectations of central SOE leaders by setting promotion criteria.

Consequently, the interests of the leaders of eldest-son SOEs are closely tied to those of the party-state. These leaders are more concerned with their political careers than with their personal salaries, and even when direct government mandates have not been issued, they voluntarily adhere to the wishes of the CCP's Central Committee. For example, when the revenue of central enterprises decreased in 2013, several enterprise executives responded to the government's call for salary reductions, with executives in the China Shipbuilding Group slashing their salaries by more than 30 per cent.³⁴ This set of circumstances establishes a symbiotic relationship between the government and eldest-son leaders; leaders rise up the ranks through their connections with the party-state, and the party-state intervenes in the operations of enterprises through their leaders. However, it remains to be determined how eldest-son enterprises can be identified, given that the dual-track enterprise classification influences the careers of enterprise leaders.

Regulatory agency and personnel management system

Although there have been numerous SOE reforms since the 1980s, central SOE leaders are still subject to the Party's cadre management system.³⁵ The establishment of SASAC and the introduction of market mechanisms in the reform of SOEs marked a considerable change to the management of the leading cadres of central SOEs, a change which was required to reconcile the conflicting goals of political control and corporate governance. Kasper Ingeman Beck and Kjeld Erik Brødsgaard highlight the role of corporate Party organizations, noting that a hybrid governance model, known as CCP Inc., ensured the Party's dominance within enterprises. However, they also contend that the Party needed to strike a balance between maintaining ultimate control over the state-owned sector and

31 Yang, Wang and Nie 2012.

32 Their research included data on central SOE leaders at two administrative levels: the vice-ministerial and the department and bureau level. See Yang, Wang and Nie 2012 for additional details. The promotion rate from bureau-level officials to vice-provincial/ministerial-level officials is less than 2.5%. "Guancha zhan: yichang jiannan de shengqian zhi lu weihe shuo Zhonggong shi 'jingying zhengzhi'" (Observation station: a difficult path to promotion – why is the CCP considered to be "elite politics"). *HK01.com*, 23 December 2019, https://www.hk01.com/article/412588?utm_source=01articlecopy&utm_medium=referral.

33 Leutert 2018.

34 "Bufen yangqi gaoguan daitou jiang xin zhuanjia cheng shi shu 'hanjian'" (Some central enterprise executives take the lead in cutting salaries, which experts say is "rare"). *Renminwang*, 21 January 2013, <http://finance.people.com.cn/BIG5/n/2013/0121/c1004-20266081.html>.

35 State Council 2009.

improving its performance.³⁶ The 2019 regulations on the management of leading cadres in central SOEs also reflect the CCP's efforts to resolve this problem.³⁷

In 1998, as part of the State Council restructuring, the State-owned Assets Management Bureau (*Guojia guoyou zichan guanli ju* 国家国有资产管理局) was abolished, and SOE management authority was dispersed among several agencies, including:³⁸

- State Planning Commission (*Guojia jihua weiyuanhui* 国家计划委员会) – project decisions and investment;
- State Economic and Trade Commission (*Guojia jingji yu maoyi weiyuanhui* 国家经济与贸易委员会) – SOE operations and asset listing approvals;
- Ministry of Finance (*Caizheng bu* 财政部) – asset registration, capital and revenue allocation;
- State Council Inspector's Office (*Guowuyuan jiancha bangongshi* 国务院监察办公室) – financial audits;
- Organization and Personnel Departments (*Zhongyang zuzhi bu yu renshi bu* 中央组织部与人事部) – SOE leadership appointments and removals, alongside the Central Work Committee for Large Enterprises;
- Labour and Social Security Departments (*Laodong yu shehui baozhang bu* 劳动与社会保障部) – labour and salary management.³⁹

SASAC was established in 2003, directly under the State Council. This new organization re-centralized control over SOEs, ending the chaos of fragmented authority. SASAC is the regulatory body for central enterprises and manages the state-owned capital, enterprises and personnel within SOEs on behalf of the state. It also collaborates with the Organization Department in selecting, evaluating, appointing and dismissing corporate executives. Specifically, the First Bureau for the Administration of Corporate Executives (*qi gan yi ju* 企干一局) oversees vice-ministerial level enterprise leaders, while the Second Bureau for the Administration of Corporate Executives (*qi gan er ju* 企干二局) manages bureau-level enterprise leaders.

Leaders of central SOEs at the vice-ministerial level are classified as cadres under the oversight of the Party Central Committee (*zhongguan ganbu* 中管干部). Their personnel appointments are determined by the Enterprise Cadres Bureau of the Central Organization Department. SASAC has influence over personnel appointments through its involvement in the creation of management and assessment regulations for central SOE executives, as well as through its evaluation of the annual performance of these enterprises. The results of SASAC's assessments serve as a crucial basis for determining the remuneration and appointments of central SOE leaders, thereby granting SASAC considerable influence over personnel decisions in SOEs.⁴⁰ The management of SOE leaders follows the same regulatory framework as that used for government officials of equivalent ranks, including retirement age limitations.

Eldest-son companies

Eldest-son SOEs are typically associated with political objectives, yet it is unclear which specific companies this term encompasses. Owing to the opacity of China's policymaking process, there is no

36 Beck and Brødsgaard 2022.

37 "Zhonggong zhongyang yinfa 'Dang zheng lingdao ganbu xuanba renyong gongzuo tiaoli'" (CCP Central Committee issued "Regulations on the selection and appointment of Party and government leading cadres"). www.gov.cn, 17 March 2019, https://www.gov.cn/zhengce/2019-03/17/content_5374532.htm. Accessed 23 December 2023.

38 Established in 1988 as China's first state-owned assets supervisory agency, the State-owned Assets Management Bureau came under the Ministry of Finance in 1993 and was abolished in 1998 following SOE corporatization reforms. Related content is available at <http://www.reformdata.org/2008/0509/18009.shtml>.

39 Shao 2014, 403.

40 State Council 2009.

Table 1. Four Types of Central SOEs

Enterprise Classification	Administrative Level	
	<i>Vice-ministerial Level</i>	<i>Bureau Level</i>
National security-related enterprises	Vice-ministerial and national security-related enterprises (62)	Bureau and national security-related enterprises (11)
Others	Vice-ministerial and others (1)	Bureau and others (136)

Source: Author's database.

publicly available list of eldest-son companies; however, these SOEs can be identified through two key company-level criteria.

The first criterion is enterprise classification. Since November 2004, SASAC has published lists of the main industries in which central enterprises operate, categorizing SOEs into two groups: “key industries and sectors” and “others.”⁴¹ Key industries and sectors are integral to national security and play a vital role in the national economy; they are referred to as national security-related enterprises. These enterprises carry out governmental functions such as maintaining employment, ensuring price stability and providing public goods (see Appendix 1 in the online supplementary material).⁴²

The second criterion concerns the administrative level of the leaders of the corporations. Central SOEs are divided into vice-ministerial and bureau levels according to their leadership hierarchy, which was established by the Central Enterprise Work Committee in 1999. Out of the 163 central enterprises under its management, 39 fall under the purview of the Central Organization Department and operate at the vice-ministerial level, while the remaining 124 operate at the bureau level. Most vice-ministerial SOEs, such as China National Petroleum, China Aerospace Science and Technology Corporation (*Zhongguo hangtian keji* 中国航天科技) and the State Grid Corporation of China (*Guojia dian wang* 国家电网), were formed through the reorganization of government departments and are linked to national security. According to the author's database, between 2003 and 2018, there were 63 central SOEs operating at the vice-ministerial level.

This study classifies central enterprises using two company-level criteria: their relevance to national security and their administrative level, constructing a two-by-two matrix (see Table 1). The enterprises on the upper-left corner of the matrix – vice-ministerial and national security-related enterprises – have the highest relevance to national security. The 62 enterprises that satisfy the two criteria are considered to be eldest-son enterprises, a term which this study defines more clearly (see the online Appendix 3).

Research Questions and Data

Research questions

This study addresses two primary questions. The first is whether the qualifications of central SOE leaders differ between the Hu and Xi eras, and how shifts in the party-state's needs influence the selection of these leaders. The second question examines how China's dual-track system affects the careers of central SOE leaders. This question is also related to the principal-agent relationships between the party-state system and the central SOE leaders and whether the dual-track system established by the Chinese government has aligned the interests of the government with those of the central SOE leaders.

41 In these two documents, the Chinese government distinguishes key enterprises related to national security and considered the lifeline of the national economy. See SASAC 2004; 2005.

42 “Guanyu tuijin guoyou ziben tiao zheng he guoyou qiye chongzu de zhidao” (Guidance on promoting the adjustment of state-owned capital and the restructuring of state-owned enterprises). www.gov.cn, 5 December 2006, https://www.gov.cn/gongbao/content/2007/content_503385.htm. Accessed 3 November 2022.

To address these questions, this study analyses the impact of three personal attributes of leaders: political qualifications, professional qualifications and age. This analysis is used to determine which candidate profiles are most suitable for central SOE leadership roles and examines how these profiles have evolved across the Hu and Xi eras.⁴³ Political and professional qualifications are preconditions for the appointment of central SOE leaders. Political qualifications, including experience gained at the Central Party School and from cadre exchange programmes, signify a cadre's loyalty to the Party. The CCP assesses the political qualifications of cadres to ensure they align with the Party's objectives; traditionally, Party leaders tend to favour cadres with superior political qualifications. During the reform era, CCP policy shifted towards focusing on the professionalization of cadres as a means to better manage the increasingly complex economy. Professional qualifications include the academic degrees held by cadres as well as their area of expertise and are a critical determiner of whether an individual ascends in a social or political hierarchy, particularly in a corporate context. Age is another key factor in cadre selection. The retirement age limits the extent to which Chinese officials can be promoted. Because age restrictions are imposed at various cadre levels, younger cadres have a higher chance of promotion. If cadres are sponsored by a senior leader and are younger than their peers, they may experience accelerated political advancement.

This study also considers leader turnover to determine the stability of the dual-track system. Leaders of eldest-son companies who perform political tasks are likely to be given promotion opportunities as a reward for performing those tasks. In contrast, leaders of other central enterprises are typically offered financial benefits for performing tasks. Research indicates that central SOE leaders who continue with their political careers often undergo lateral transfers (*pingji diaodong* 平级调动).⁴⁴ According to Article 70 of the Chinese National Civil Servant Law of 2005, managers of SOEs can be transferred and become civil servants.⁴⁵ The 2008 "Regulations on civil servant transfers (trial implementation)" stipulate in Article six that such transfers must be to positions that correspond in level to the original position.⁴⁶ Therefore, senior executives of central enterprises who become civil servants are required to assume a civil servant position at the same level as that of their former role before they are eligible for promotion. Thus, lateral transfers to Party or government positions at the same level are part of the promotion process. Individual cadres who transferred to leadership positions in other central SOEs without becoming civil servants first were not considered in this study (Appendix 6).

Take the case of Miao Wei 苗圩 as an example. In 1999, he served as the general manager and Party secretary of Dongfeng Motors. He was later transferred to the standing committee of the Hubei provincial Party committee and became the secretary of the Wuhan municipal Party committee in 2005. In 2008, he was transferred to the role of vice-minister in the Ministry of Industry and Information Technology and also deputy secretary of the Party Leadership Group. Although the administrative level of his position remained the same after the transfer, Miao Wei eventually became a civil servant. In 2010, he was promoted to the ministerial-level position of minister of industry and information technology and secretary of the Party Leadership Group. This illustrates that although the entry of central SOE leaders into the Party and government system constitutes a lateral transfer, it is a crucial step in the promotion process.

43 According to the State Council's 2018 regulations, central SOE leaders must be professional and loyal to the Party. "Zhongyang qiye lingdao ren yuan guan li guiding jiedu gaiyao" (Summary of the interpretation of the regulations on the management of leading personnel of central enterprises), 17 October 2018, <http://dangjian.people.com.cn/n1/2018/1017/c117092-30346610.html>. Accessed 12 May 2023.

44 Leutert 2018.

45 NPC 2018.

46 "Gongwuyuan diaoren guiding" (Regulations on civil servant transfers (trial implementation)). *National Civil Service Administration*, 8 January 2020, http://www.scs.gov.cn/zcfg/202001/t20200108_16199.html. Accessed 3 November 2022.

Data

This study investigates the leaders of central SOEs under the oversight of SASAC from March 2003, the start of Hu Jintao's term, to March 2018, the end of Xi Jinping's first term. This timeframe allows for a comparison of the leadership situations in each era. Over the course of 15 years, the number of central SOEs fluctuated significantly. In early 2003 at the inception of SASAC, 189 SOEs came under its jurisdiction. By March 2018, various consolidations had reduced this number to 98, with the first 50 SOEs being classified as vice-ministerial level enterprises and the remaining 48 being classified as bureau-level enterprises. The author's database includes all leaders of existing and merged companies. The total sample size is 274, and the data encompass the backgrounds and professional experience of 211 leaders, some of whom held more than one leadership position in central enterprises (see the online Appendix 2 and Appendix 7).

Data were collected from information that was publicly available online, with the directory of central SOEs accessed on the SASAC website. Information pertaining to the current leaders of central SOEs was obtained from the websites of various enterprises as well as the Database of Chinese Party and Government Leaders (*Zhongguo dangzheng lingdao ganbu ziliao ku* 中国党政领导干部资料库). Data on leaders who had already left their positions were validated by cross-referencing news reports on appointments and dismissals on the SASAC website, *People's Daily Online*, *Baidu Baike* (*Baidu baike* 百度百科), *Hexun* (*Hexun wang* 和讯网), *Phoenix* (*Fenghuang wang* 凤凰网), *Sina* (*Xinlang wang* 新浪网) and *Hudong.com* (*Hudong baike* 互动百科).⁴⁷

Empirical Analysis

Leaders of central SOEs

Xi Jinping's initiatives to reinforce the Party's authority upon assuming power indicate that his administration places a strong emphasis on the political qualifications of central SOE leaders, although such an emphasis may undermine the importance of professionalism. During the period explored in this study (2003–2018), central SOE leaders exhibited several changes: an increase in professional qualifications, a decline in political qualifications and a narrowing of the age gap at the time of appointment. These changes point to a growing institutionalization of the personnel system in central enterprises and the Chinese government's increasing focus on the professional competencies of leaders. Additionally, the study observed a reduction in promotions of cadres who do not meet the age requirements.

The leaders of eldest-son companies do not possess superior professional and political qualifications, nor do they have age-based advantages. This indicates that the Chinese government has uniform expectations for the leaders of all companies. The current data indicate an increase in the professional qualifications of central SOE leaders, particularly in terms of their education levels and fields of specialization (see Figure 1). Overall, 23.4 per cent of central SOE leaders hold a PhD. This share increased from 18.0 per cent during Hu's first term to 26.3 per cent during Xi's first term. In addition, 38.7 per cent of central SOE leaders across all periods specialized in economics or management, and this percentage increased from 37.6 per cent during Hu's first term to 50.5 per cent during Xi's first term.

Among central SOE leaders who majored in engineering and science, 53.1 per cent had bachelor's degrees. For those who specialized in economics and management, 86.5 per cent had a master's or

47 Researchers who gather data on officials below the deputy-ministerial level may encounter information incompleteness. Cross-referencing online data does not guarantee accuracy and discrepancies may arise. This is a structural challenge inherent to research on CCP elites. This study acquired the most relevant and practical information possible from publicly available data.

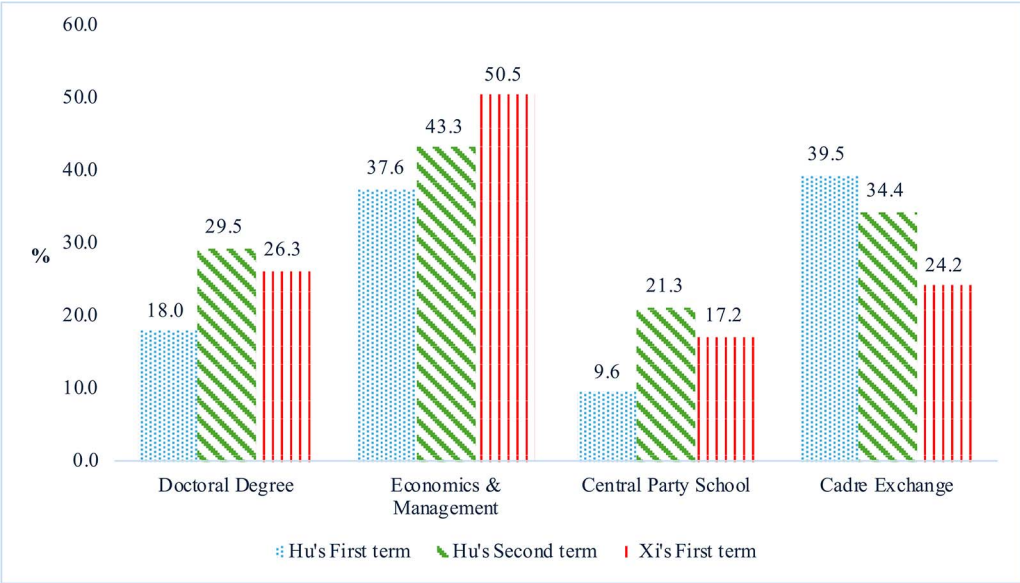


Figure 1. Political and Professional Qualifications of Newly Appointed Central SOE Leaders in Three Periods
Source: Author's database.

doctoral degree. This indicates a preference for pursuing advanced degrees in economics or management among SOE leaders. This trend implies that top executives are eager to enhance their abilities in business management (online Appendix 4).

As the emphasis on professional qualifications has increased, the importance of political qualifications has decreased. Although the proportion of leaders with qualifications from the Central Party School increased from 9.6 per cent during Hu's first term to 21.3 per cent during Hu's second term, it decreased to 17.2 per cent during Xi's first term. In addition, the proportion of central SOE leaders with Central Party School qualifications is lower than that for other cadres.⁴⁸ The rate of cadre exchange (*ganbu jiaoliu* 干部交流) also decreased, from 39.5 per cent during Hu's first term to 24.2 per cent during Xi's first term.⁴⁹ This indicates that the majority of central SOE leaders possess backgrounds that are grounded solely in the corporate sector of SOEs, equipping them with extensive experience in corporate management.

By determining how the average age of central SOE leaders upon appointment has changed, this study elucidated the institutionalization of personnel appointment in the Xi era. Although the average age of corporate leaders increased from 50.8 to 56.3 years during Xi's first term, cadre members who were too young or too old were not nominated to be corporate leaders (Figure 2). The difference between the oldest and youngest leaders was 23.5 years during Hu's first term and 27.2 years during his second term. However, this difference decreased to 13.4 years during Xi's first term, indicating

48 According to CCP regulations, cadre promotion to the provincial or ministerial level requires participation in the middle-aged and young cadre class (*zhong qing ban*) at the Central Party School (Lian 2019). Party School qualifications (such as experience in cadre training programmes and academic degrees) can ensure that cadres pass the Party's political review. Studies have also demonstrated that individuals with Party School qualifications have better chances of promotion (Lee, Charlotte 2013).

49 The CCP has a policy promoting exchanges between SOEs and Party-affiliated governmental bodies. Therefore, this study interprets appointments of central enterprise leaders to roles outside the SOE system as instances of cadre exchanges. See "Zhongyang qiye fuze ren jingying yeji kaohe banfa" (Measures for the evaluation of the operational performance of persons in charge of central enterprises). www.gov.cn, 1 March 2019, https://www.gov.cn/zhengce/zhengceku/2019-11/01/content_5447595.htm. Accessed 3 November 2022.

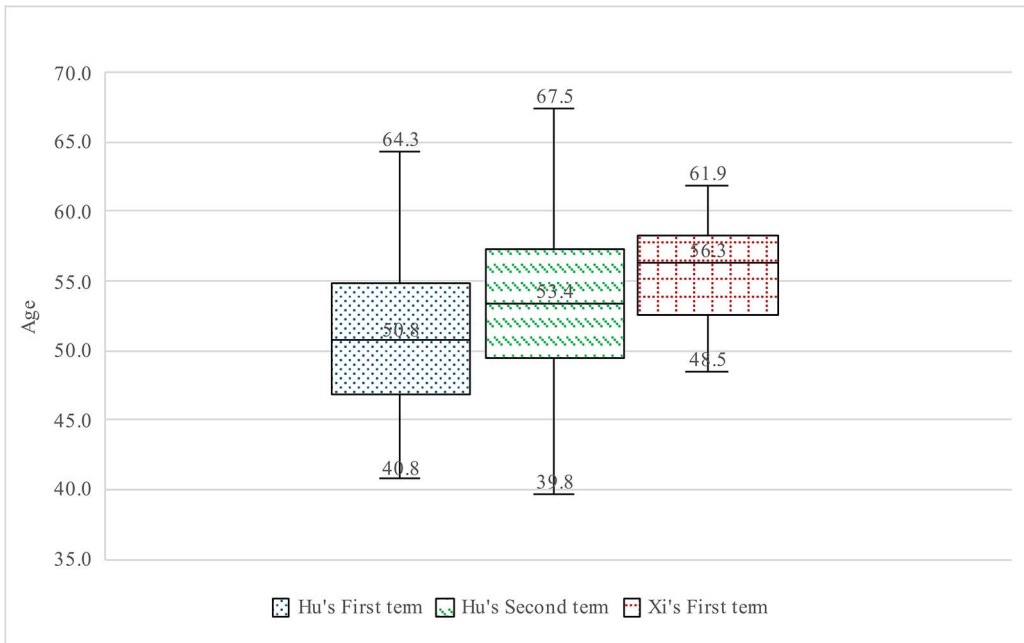


Figure 2. Age of Newly Appointed Central SOE Leaders in Three Periods

Source: Author's database.

a weakening in the effects of non-institutional factors. Decreases in the unconventional promotions of central SOE leaders also indicate that the effects of non-institutional factors on personnel appointment weakened after Xi assumed office.

After central SOE leadership

This section of this study examines whether China's dual-track management system influences the promotion of leaders in central SOEs. The system was implemented to address the conflicts of interest that are inherent to the principal-agent relationship, providing the Chinese government with an impetus to maintain stability and motivate central SOEs to achieve both political and economic objectives. On an individual level, this dual-track management system impacts the short-term career incentives and long-term career development of central SOE leaders. As a result, it provides the Chinese government with a means of guiding leaders' actions by offering them incentives.

When leadership positions at central enterprises become vacant, cadres face either promotion or termination. This study defines promotion as a transition to a Party or government department, while termination can lead to either "bare retirement" (*luo tui* 裸退) or post-retirement job remuneration. Bare retirement occurs when an individual has no assigned position after retirement, whereas post-retirement job remuneration refers to appointments in government-affiliated organizations, such as non-leadership roles in industry associations or independent directorships in other SOEs.⁵⁰

Consistent with the study's hypothesis, leaders of eldest-son enterprises experience a promotion rate that is nearly six times higher than that of their counterparts in non-eldest-son enterprises. Additionally, leaders of non-eldest-son enterprises are almost twice as likely to secure post-retirement positions. This finding suggests the presence of two distinct incentive mechanisms

⁵⁰ Independent directors of SOEs are appointed by the SASAC. The provisions are listed at <http://fgcx.bjcourt.gov.cn:4601/law?fn=chl373s230.txt>.

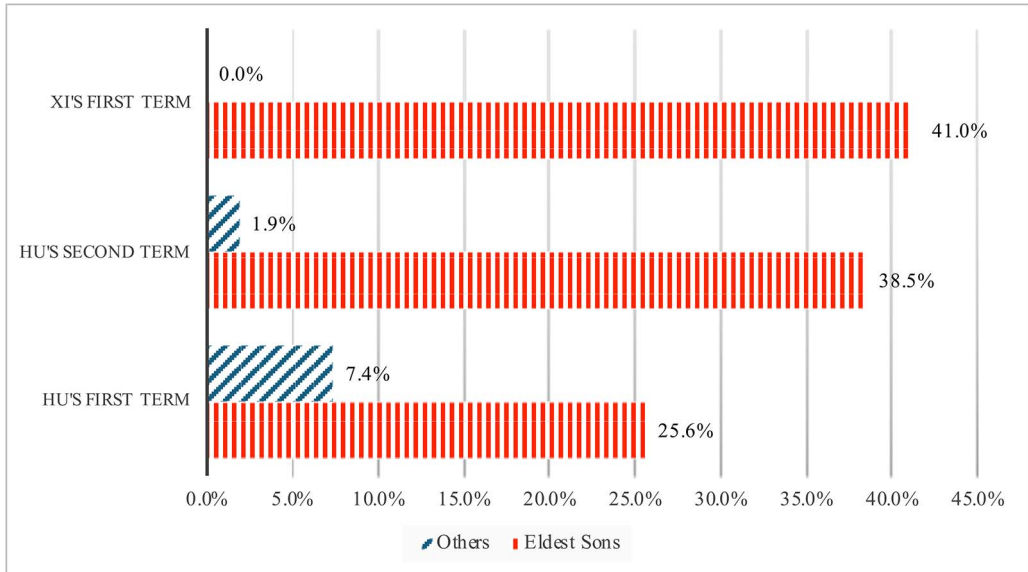


Figure 3. Promotion to a Party-State Position
Source: Author's database.

for leaders in central SOEs, highlighting the strong link between their rewards, career progression opportunities and the characteristics of their respective enterprises. The dual-track management system effectively shapes the expectations of central SOE leaders through these two types of incentives, thereby ensuring that their actions align with governmental expectations (see the online Appendix 5).

Figure 3 shows that the leaders of eldest-son enterprises have a high likelihood of promotion. During Hu's first term, 25.6 per cent of the leaders from eldest-son enterprises who stepped down from corporate leadership were transferred to Party and government departments. In contrast, a mere 7.4 per cent of leaders from other central enterprises secured positions with the Party or government. Moreover, the career trajectories of eldest-son and non-eldest-son enterprise leaders have increasingly diverged. In Xi's first term, the proportion of eldest-son enterprise leaders transitioning to Party and government departments increased to 41.0 per cent; however, no non-eldest-son corporate leader was transferred to a Party or government department.

A clear trend can also be observed in the remuneration for central SOE leaders in their post-retirement roles (Figure 4).⁵¹ During Hu's first term, more than 60 per cent of all central SOE leaders were paid for their post-retirement positions. However, by Hu's second term, this figure had significantly decreased, particularly among eldest-son enterprise leaders. Under Xi's leadership, this trend intensified, as leaders of eldest-son enterprises no longer received remuneration for their post-retirement posts, while 41.7 per cent of leaders from non-eldest-son enterprises continued to benefit from such compensation.⁵² This shift reflects Xi Jinping's broader reforms in SOEs and the political economy, which focused on tighter control over eldest-son enterprise leaders.

51 Post-retirement job remuneration means an appointment to a government-affiliated organization or an independent directorship in other state-owned enterprises. Please refer to the online Appendix 5 and Appendix 5.1 for relevant instructions.

52 Refer to the online Appendix 5.1 for a list of leaders of non-eldest-son enterprises who received post-retirement remuneration.

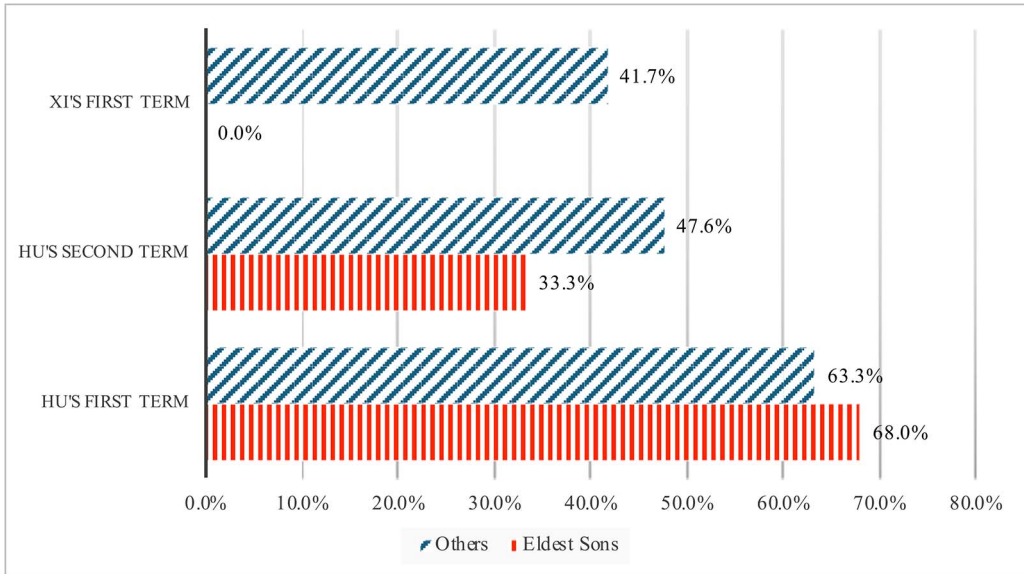


Figure 4. Retirement and Rewards
Source: Author's database.

During Hu Jintao's first term, the dual-track management system was still in its early stages and was unstable, offering both political and financial incentives to eldest-son enterprise leaders. However, under Xi Jinping, the dual-track management system matured and became more structured and disciplined. The career paths of central SOE leaders were increasingly tied to the classification of their enterprises. This clearer delineation between the two tracks helped to solidify the relationship between the state and enterprise leaders, ensuring that their career incentives were closely aligned with the party-state's overarching goals.

The stability of the principal-agent relationship now hinges on the alignment of interests between the party-state and SOE leaders. Eldest-son enterprise leaders are expected to prioritize political objectives, such as supporting state-driven projects and national security initiatives, while non-eldest-son leaders are incentivized to focus on financial and commercial success. This clear differentiation has made the dual-track management system more effective, guiding SOE leaders to contribute to both political and economic goals in line with Xi's broader reforms. By reinforcing the Party's oversight and embedding state control more deeply within corporate governance, these reforms have strengthened the strategic positioning of SOEs as instruments for both economic management and political governance.

Limitations of the Study

This study has three main limitations. First, limitations related to available data preclude the determination of whether leaders had obtained their highest educational qualification before beginning their tenure at their respective enterprises. This limitation may indicate that the current study does not fully capture how in-service education or early career professional experiences contribute to variations in the professional qualifications of leaders. To address this limitation, this study includes a discussion on the association between the academic degrees of leaders and their respective fields of expertise.

Second, this research did not differentiate between the specific influences of EMBA degrees and other academic credentials on the career trajectories of central enterprise leaders. This presents an opportunity for future studies to explore how EMBA affect leaders' career paths.

Finally, this study does not analyse the association between the dual-track management system and firm performance. Defining "performance" in the context of central SOEs is complex and is potentially a distinct research topic. Performance evaluation in SOEs can be multifaceted, encompassing both economic perspectives, such as profitability, and political perspectives, such as the fulfilment of government functions. Moreover, the study acknowledges the challenges of addressing endogeneity, which is particularly prevalent in monopolistic industries, in analyses of profitability.⁵³

Conclusion

This study explores the effects of the dual-track management system on the reform blueprint of SOEs through a close analysis of the categorization of central SOEs and the career patterns and backgrounds of their leaders. It reveals a notable shift in the leader selection model within central SOEs towards prioritizing professional qualifications and institutionalization. The Chinese government considers the professional credentials of top-tier corporate executives, including those of eldest-son companies, to be crucial. The Xi administration has sought to strengthen its political control over corporations and tends to value the professional qualifications of central SOE executives.

The Chinese government appears to place less emphasis on political credentials than might be expected – for instance, even the CCP's requirement that cadres receive training at Central Party Schools before receiving a promotion is not typically extended to central SOE leaders.⁵⁴ The study's scope, which is limited to Xi's first term – a period characterized by anti-corruption efforts – may limit its findings. Inclusion of data from Xi's second term could lead to different results. Although the CCP requires officials to attend the Party School and engage in cadre exchanges, central SOE leaders, who are not civil servants, may have different political qualifications from those of other officials. Future studies should also consider the increasing trend of certain military-industrial central SOE leaders becoming members of the CPPCC National Committee, which could suggest a strategic shift towards integrating the military and civilian sectors.

Furthermore, the age disparity between corporate leaders is narrowing. The Chinese government generally refrains from appointing those who are very young or older than the retirement age as cadres. This minimizes the effects of non-institutional factors on the personnel appointment mechanism of central SOEs.

This study reveals that the leaders of eldest-son and non-eldest-son companies follow different career trajectories. Leaders of eldest-son companies tend to be rewarded with promotions, reflecting their alignment with political objectives, while leaders from non-eldest-son companies are more likely to be rewarded with financial incentives, such as salary increases. The dual-track system has been firmly established under Xi's leadership. By strategically implementing incentives, the Chinese government can influence the behaviour of central SOE leaders and thereby steer enterprises towards the fulfilment of its political and economic objectives.

This study makes a meaningful contribution to research on the CCP elite by elucidating the interplay between parallel classification systems based on administrative levels and corporate functions. It introduces the concept of a dual-track system as a framework for understanding the Chinese

53 Junyan Jiang's (2018) article discusses how, in the context of local Chinese official promotions, performance may be partially shaped by political connections, highlighting the issue of endogeneity.

54 The CCP mandates that cadres at all levels participate in Party School training. The assessments of these courses serve as an essential basis for the appointment and promotion of cadres. "Jianquan dang de quanmian lingdao zhidu de zhongyao shijian" (Important practices in improving the Party's overall leadership system), 8 November 2019, <http://theory.people.com.cn/BIG5/n1/2019/1108/c40531-31444123.html>. Accessed 6 June 2020.

government's approach to managing central SOEs. The intricate relationship between the government classification systems is indicative of the complexities of SOE reform. The classification system based on enterprise function is associated with the de-administrative reform of central SOEs. However, such reforms have inadvertently weakened the government's control over these enterprises and reduced enterprises' enthusiasm with respect to achieving political objectives.⁵⁵

As long as central SOE leaders are subject to the principles of the Party management of cadres, the Chinese government will retain the ability to supervise and influence enterprises, regardless of the nature and extent of their corporate governance reforms or changes in ownership.

In the theoretical paradigm of government–enterprise relations, politicians and managers are often considered to be separate actors with diverse interests who are vying for control over enterprises and their monetary benefits.⁵⁶ The current study proposes that a different relationship is present in China, one which is characterized by collusion. In this model, politicians offer political incentives to managers, enabling the Party to control SOEs and drive them towards achieving political objectives.

Supplementary materials. The appendices are available online as supplementary material at <https://doi.org/10.7910/DVN/4KWDD2> and <https://doi.org/10.1017/S0305741025101136>.

Competing interests. None.

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55 Jiang, Da-xing 2014.

56 Shleifer and Vishny 2002, 87–92.

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