The social order of Chinese capitalism: socio-economic uncertainty, communist party rule and economic development, 1990–2000

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Abstract

China’s financially repressed economy remains characterized by a distinctly resilient political structure (the Chinese Communist Party, CCP) that penetrates both increasingly rational ‘private’ (market) and ‘public’ (state) organizations. How are we to understand the financial system’s role in this persistently illiberal yet marketizing political economy? This paper develops a theory of China’s financial reform as the management of socio-economic uncertainty by the CCP. Since the early 1990s, the financial system has formed a locus of the CCP’s capacity both to manage and to propagate socio-economic uncertainty through the path of reform. The unique path of financial reform in China should thus not be viewed solely in terms of ‘partial’ or ‘failed’ free-market reform, but rather as the product of a more concerted vision of how the financial system enabled a mode of economic growth that combined the drive for accumulation of capital with the distinctive legacies of China’s post-1989 socio-political circumstances.

Keywords: China; Chinese Communist Party; financial repression; institutional change; risk and uncertainty; state capitalism.
Introduction

计划多一点还是市场多一点，不是社会主义与资本主义的本源区别，计划和市场都是经济手段。

Whether a little more plan, or a little more market; this is not the fundamental difference between socialism and capitalism. The plan and the market are both economic tools.

Deng Xiaoping (Deng, 1993)

How to understand the nature and evolution of China’s political economy is one of today’s most widely discussed yet least-resolved questions. China’s contemporary experience of development has been characterized by both rapid economic growth and macroeconomic stability (Figure 1). At the same time, however, this economic development has become increasingly imbalanced, a political phenomenon linked to the predominance of ‘public’ ownership in the major industrial and financial sectors (Figure 2). These intertwined trajectories of development raise the question of how, contrary to common expectations, the deepening of market-oriented economic reform has been achieved at the same time as the consolidation of political authority. In other words, how can we explain the symbiotic relationship between effective economic governance and the exercise of political power in circumstances where one might have been expected to dominate and overwhelm the other?

To gain greater traction on this question than is currently possible through mainstream frameworks of Chinese political economy, this paper draws upon

Figure 1  Growth and inflation, 1978–2012
Source: CEIC China premium.
insights from economic sociology to develop a theory of financial reform in China as the management of socio-economic uncertainty by the Chinese Communist Party (CCP). Approaching questions of economic growth, financial stability and political authority from the perspective of the management of uncertainty, rather than as a product of interplay between state regulation and market competition, requires doing greater justice to the clearly significant yet under-theorized sociological role of the CCP itself in underpinning China’s trajectory of economic development, a role that is otherwise neglected by frameworks that reduce it to an ambiguously defined and largely ad hoc element in a state–market dynamic. Such an approach contributes to current bodies of literature within both political economy and economic sociology. Firstly, it advances our analytic toolkit for fruitful comparative analysis of political economies such as China in which the boundaries between state and market, and public and private, are less clear than in other capitalist societies that are the traditional subjects of comparative political economy. By honing in on the substantive nature of how financial expectations are generated even in institutional environments deeply riddled with uncertainty, it becomes possible to explain macroeconomic growth trajectories without lapsing into static ideal-typical dichotomies between state-led and market-led narratives whose analytic utility is challenged by politico-economic environments such as that encountered in China. Secondly, it contributes to a body of literature within economic sociology that seeks to understand how financial systems are shaped by the development of expectations and shared understandings by key actors across market environments, but which tends somewhat to neglect the macroeconomic and broader distributional consequences of such political processes. In applying these theoretical insights to questions traditionally reserved for comparative political economy,
the paper demonstrates how economic sociology can underpin a more rigorous and accurate depiction of the macro-dynamics of economic development in a broader comparative context.

In order to develop this theory and flesh out these claims, I focus on the crucial period of the early 1990s and the reforms that unfolded during that decade in the financial sector as a means of shedding light on the emergence of paradoxical principles of politico-economic organization that continue to guide China’s developmental trajectory today. After confronting a deeply existential crisis in 1989, the early and mid-1990s saw China’s political leaders commence a process of economic commercialization and rationalization. However, this was achieved not by dismantling or reducing the significance of political institutions within the economy, but by redoubling efforts to enhance their role in fostering growth. These efforts were concentrated especially within the financial system, a sector that had experienced little change since the planned-economy era. As I argue in this paper, during this period the financial system would come to form a locus of the CCP’s capacity to manage socio-economic uncertainty throughout the path of reform and development. The CCP has faced the challenge of preserving domestic socio-political stability by harnessing capital in pursuit of economic growth, whilst managing the risk to its political authority posed by this capital embedded within domestic and global markets. It evolved into an organization dedicated to managing this risk by maintaining a high degree of political authority over both the flow of capital and bureaucratic policymaking, and the financial system constituted the most important set of mechanisms for achieving this. The unique path of financial reform in China should thus not be viewed solely in terms of ‘partial’ or ‘failed’ state–market reform, but rather as the product of a more concerted vision of how the financial system was capable of underpinning a particular mode of economic growth that combined the drive for accumulation of capital with the distinctive legacies of China’s post-1989 socio-political circumstances.

These arguments placing the CCP at the centre of the analysis emerged out of over sixty semi-structured interviews conducted in both Chinese and English in Beijing from April 2012 until April 2014. Interviews were obtained via a snowballing method and included retired party cadres, central government financial regulators, banking executives and members of state think-tanks and policymaking institutions. These yielded insights as to the process of financial policymaking, the role of CCP networks in the financial system and the procedural mechanics of capital allocation within China’s largest banks and financial institutions. Direct historical knowledge of events and developments from the early 1990s provided by interviewees was supplemented by textual sources including a number of internal government journals and reports accessed via the Universities Services Centre in Hong Kong. Cumulatively, they provide a rich source of information as to how financial elites and policymakers in China came to manage the ambiguous relationship between state and market by extending the reach of financial capital, but simultaneously consolidating the persistently illiberal authority of the CCP over the use of that capital.
The paper proceeds as follows. I next examine the importance of the financial system for understanding the nature and development of China’s political economy, and argue for its reconceptualization on the basis of managing socio-economic uncertainty. I examine how this socio-economic uncertainty is related in specific ways to crucial questions both of governance and of power. These relationships each provide space for moving beyond problematic assumptions of binary rational logics of ‘state regulation’ and ‘market competition’. In the third section I then operationalize these concepts through a framework of mechanisms for managing and exploiting uncertainty based on cognitive frames, social institutions and relational networks. I show how banking sector reform and monetary policy following 1989 preserved rather than dismantled the function of the financial system at the heart of an increasingly illiberal yet also increasingly capitalist political economy. I conclude the paper by considering some implications of this reconceptualization for how we understand the paradoxes and contradictions that continue to characterize China’s political economy today.

Uncertainty and the socio-political roots of China’s financial repression

The greatest changes in the reconfiguration of the Chinese political economy since the early 1990s have been visible in the shifting patterns of public ownership over the various sectors that have driven China’s impressive GDP growth rate. Capital-intensive industrial upgrading has been led by a core group of state-owned enterprises (SOEs) in conjunction with local government investment in infrastructure, whilst a globally competitive manufacturing sector has been led by the emerging private sector. The financial sector has resided at the core of this reconfiguration of the Chinese political economy, as a system of financial intermediation that has been responsible for fostering the capacity of these sectors to underpin strong economic growth. Financial repression has been central to this role of the financial system (Huang & Wang, 2011), and there is a growing literature on how repressive financial policies foster a number of specific politico-economic imbalances, including income and regional inequality (Johansson & Wang, 2012) and sectoral imbalance (Johansson & Wang, 2011).

Existing conceptual frameworks deployed by political economists to explain this role of the financial system have viewed the Chinese political economy as embodying a state of antinomy between an interventionist state and a competitive market (see most prominently Huang, 2008; Lardy, 1998; Shih, 2008). Much of this can be attributed to reliance upon the Western European historical experience of economic development as building-blocks for analytic frameworks (Wong, 1997), retaining an emphasis either upon the logics of the neo-Weberian developmental state (see, for example, Knight, 2014), or the frictionless ideal-type of atomized market competition (see, for example, Pei, 2006) in order to
explain only one partial empirical dimension of the Chinese political economy. By conflating ‘reform’ with ‘market liberalization’, such perspectives provide scant assistance in explaining the political economy of marketization and deepening political authority within China’s financial system (cf. McNally, 2012). They continue to describe either the macro-level ‘rational egoism’ of states and markets as discrete institutional logics, an ideal-typical binary dichotomy between state regulation and market competition that is difficult to sustain in light of the fused discourses, institutions and networks of state and market that underpin China’s political economy.

At the same time, although anthropologists and sociologists have explored such issues with greater nuance at the local and micro level (for instance, Keith et al., 2014), those that have sought to analyse China’s macroeconomic development holistically from a sociological perspective have tended to entrench rather than disrupt these problematic conceptual categories (see, for example, Nee & Opper, 2012). They miss crucial elements of the overall trajectory of reform and, specifically, gloss over the implications of what was in fact a much more concerted intersubjective understanding of the bases for reform and development that was embodied within the financial system as it actually existed and operated within the economy. Their assumptions surrounding actors’ interests are rather at odds with the empirical reality of contemporary financial activity and as such are increasingly untenable (Katzenstein & Nelson, 2013). State actors do not just make financial markets, nor do market actors seek necessarily to weaken the state; they are mutually embedded in ways that potentially reconfigure the sources of authority and power within the financial system. Accordingly, despite recent advances in the literature on comparative capitalism and the economic sociology of financial systems, significant deficiencies remain in how China’s political economy has been integrated into existing typologies and analytical frameworks for the study of institutional formation and change in capitalist societies (Fligstein & Zhang, 2011). Across both fields, a more nuanced treatment of the institutional dynamics within this interpenetration of state and market in China remains sorely lacking.

A more complete understanding of the evolution of China’s development trajectory instead demands a detailing of the tensions and contradictions residing at the micro-level core of the rational reproduction of politico-economic institutions. Such rationality is both historically contingent and socially variegated, and accordingly must be theorized as such: as dynamic, constantly in flux and distinctively capitalist in nature (Streeck, 2010, p. 30). In this paper I provide an alternative to this conceptual antinomy, by pointing to the way in which capitalist economic development – as distinct from some timeless and ahistorical conception of either state-led or market-led development – rests upon contingent foundations that are both socially and historically embedded. Thus situated, actors straddling ‘the public’ and ‘the private’ – thus fusing together the state and the market – co-ordinate social action in ways that can produce dynamic economic growth, yet also produce a concentration of power over how that
growth takes place and whom it benefits. This social embeddedness can be seen reflected in the role of the CCP in China’s political economy.

To lay the foundations for an analysis of China’s macro-financial development that avoids the conceptual pitfalls described above, I focus upon financial systems in contemporary capitalism as organizational systems that embody mechanisms for growth and stability at the microeconomic and macroeconomic levels respectively. At the microeconomic level, the first role is that of allocating funds to projects with higher or lower rates of return, thus affecting the marginal productivity of capital (King & Levine, 1993). Second, financial development can also allocate resources at lower costs, if it causes the financial system to be subject to lower taxation and regulatory burdens (Lardy, 1998). Finally, financial systems have an effect upon the rate of private savings (Pagano, 1993). At the macroeconomic level, as a set of social institutions that cause certain forms of financial market dynamics such as perpetual crisis (Krippner, 2011), or financial bubbles (Akerlof & Shiller, 2009), a financial system matters first and foremost either as a force of real-economic pro-cyclicality or conversely as a tool for moderating the business cycle. In China’s case, assets are highly concentrated within the banking system and associated financial institutions. This ‘deep but narrow’ financial profile is reflected in the observation that ‘China is an extremely credit-dependent economy. Without the role of credit finance, the China growth story would not have been possible’ (BJ:2012.12.14). The implication is that credit intermediated through banks has played an integral role in influencing not only the rate but also the nature of economic growth.

I analyse these dynamics of financial governance in China through its theoretical reconstruction around the concept of a financial ‘risk environment’, dedicated to the confrontation, management and exploitation of socio-economic uncertainty. This reflects the fact that both the microeconomic and macroeconomic aspects of financial activity in contemporary capitalism are inherently bound up with the tensions that emerge through the challenge of ongoing socio-economic reproduction. Uncertainty is socio-economically significant because equilibrium is a contingent, entropic and thus consistently elusive condition (Beckert, 1996, p. 829). A distinctive financial feature of contemporary capitalist societies that differentiates them from other historical modes of political economy is that both economic growth and political stability are intimately connected to the construction of ‘stable reciprocal expectations’ (Beckert, 2009, p. 245) that are capable of reducing this financial uncertainty for both political and economic actors. Accordingly, rather than beginning with the assumption of static institutional equilibria that are disrupted by bouts of institutional change, we must first assume that the landscape of social institutions is constantly in flux and that it is through the contingent and highly contested construction of institutions that some inherently limited and temporary degree of social order is achieved.

Seen from this perspective, China’s ‘transition’ has involved much more than the introduction of markets as mechanisms for price setting and resource allocation.
The underlying rationale for the nature of financial reform has been to preserve the macroeconomic stability of a dynamic real economy, whilst stimulating headline economic growth and ensuring that this growth remained under the political control of the CCP. Each of these outcomes – stability, growth and political control – depends on the management of expectations within a deeply uncertain socio-economic environment. Uncertainty thus comes to be central to understanding two features of the financial system as particularly crucial aspects of capitalist political economy, including that which has emerged in China. The first is the question of governance: the need for mechanisms to generate financial stability. The second is the question of power: such mechanisms also have distributional consequences and socio-economic outcomes that are the product of socio-political contestation. The relationship between these two features highlights the manner in which a risk environment may be effective for the purposes of the public good of macroeconomic stability, yet still ineffective in fostering sustainable socio-economic development. Understanding how uncertainty relates to questions of governance and power in this way obviates an analytical dependence upon the concepts of the state and the market. However, political economists and sociologists who study China’s macroeconomic development have largely ignored the analytic potentials thus afforded, instead relying upon the rationality of bureaucratic politics or market competition in order to guide their analysis. As the next sections elucidate, in China the point of intersection between state and market resides with the CCP and its simultaneous construction of mechanisms of governance and mechanisms for the extension of power.

**The CCP and the management of uncertainty**

Conceiving of the financial system itself as a broader tool of socio-economic governance as well as of microeconomic intermediation opens up scope for reinterpreting the institutional foundations of the connection between the financial system, the real economy and the political system. Notwithstanding the specific combination of ‘state’ or ‘market’ actors within the institutional dynamics of a financial system, its capacity to intermediate capital effectively is dependent upon systems of trust, expectations and the investor confidence thus generated (Akerlof & Shiller, 2009). Providing a financial risk-minimal environment is thus critical for both economic growth and stability – financial governance. This risk can be managed within the financial system for example through financial market securitization, or through the use of implicit or explicit guarantees. The use of government guarantees of loans and credit is an effective method of stimulating economic growth when financial market ‘freedom’ either fails or is not permitted. This model of risk management has underpinned growth in China to the extent that one banker summarized it pithily thus: ‘moral hazard is state policy’ (BJ:2012.11.29).

The development of stable reciprocal expectations as decision-making mechanisms for confronting socio-economic uncertainty thus generates analytic
opportunities that are not linked inherently to the concepts of the state and the market. In general terms, an ideologically robust, institutionally sophisticated and highly networked organizational structure at the nexus of state governance and market-active financial institutions is capable of reducing uncertainty and generating politico-economic stability. From this vantage point, the flow of capital throughout China’s political economy is modulated not as a product of market liberalization or state planning, but in terms of its relation to the underlying authority of the CCP. The CCP can thus be conceived of as residing at the core of a coherent technocratic system of managing capitalist accumulation, rather than as either an ossified authoritarian organization encircled by capitalist market forces, or as a committed adherent to the liberalization that is often assumed inevitably to accompany the process of economic commercialization and growth.

The significance of the uncertainty inherent in action as social action arises not just in commercial exchange relations between legal individuals, but more broadly across a range of actors with interests in the economic reproduction of society. Decision-making under conditions of uncertainty demands that a variety of complex and interrelated social conditions be interpreted and then managed in order for any form of agency to be exercised in a coherent manner. These dilemmas can only be resolved via a system of more or less stable reciprocal expectations on the part of actors that enable them to manage the uncertainty and risk that arise not just within market-settings, but which also obstruct agency within the political economy more broadly. These expectations are ‘fictional’ in nature (Beckert, 2013) and buttressed by both rational means–end calculations and social macrostructures, although the decision-making process is reducible to neither. The importance of approaching the issue of risk and uncertainty intersubjectively emerges clearly through empirical groundwork. Actors within the Chinese political economy and particularly the financial sector refer frequently to ‘expectations’ in how they dealt with not only government and party officials but also, if they are bankers, with their clients and creditors. The basis of these expectations is rooted in their interpretation of a broad variety of factors and variables stretching across the directly political (elite party politics as well as localized political dynamics), the socio-cultural (shifting patterns of demand and consumption and the evolution of social values) and the directly economic (production efficiency, earnings records and investment prospectuses). In this way, financial elites refer to ‘structures of expectation’ in their decision-making processes, and the manner in which they do so then reinforces certain patterns of expectation and intersubjective acceptance such that they also emerge as social rigidities capable of structuring individual agency.

Conceptualizing a risk environment as a socially constructed set of institutional mechanisms dedicated to financial governance, and thus residing at the heart of economic growth in China, enables one to begin to understand how, having embraced following 1989 the idea that stable economic growth was essential above all else to securing the social and political goals of the
CCP, China’s policy makers and financial elites were able to orient the banking system and the allocation of capital towards a particular set of economic goals and priorities in the absence of sophisticated financial market mechanisms and in the face of increasing market competition in the real economy. This conception of the risk environment as enabling the fulfilment of these goals regards the financial system as a set of social resources – a tool of technocratic macro-economic policy and also as a distinctly political tool of power.

The CCP and the power of uncertainty

This role of the financial system as a tool for economic governance dovetails with its role as a tool for political authority. In this way financial systems have a deep influence upon the path of socio-economic development, and China is no exception. As one academic stated in relation to China’s financial development,

There is a serious inequality in the distribution of wealth and capital resources. … This is directly connected to the way in which interest rates and financial markets have been managed in order to keep China’s economy on an even footing as it speeds forward like a high-speed train from Shanghai to Beijing and back again. (BJ:2012.11.24)

The process of ‘managing’ uncertainty in order to achieve both economic growth and stability is therefore also one that has distributional consequences. However, the social agency behind this power-infused management of uncertainty is opaque. In China’s case, dynamics both of ‘state’ regulation and ‘market’ competition are pressed together tightly in what has emerged as an increasingly decentralized set of economic institutions bound together through increasingly centralized political institutions. We can point neither directly to the state nor to the market as responsible for this process of confronting uncertainty, but rather can focus our attention on the risk environment as comprising a set of intersubjective expectations that emerge out of these institutions, in addition to historically and culturally derived cognitive frames, and the dynamics of interpersonal networked relationship structures. Power emerges from these frames, institutions and networks; the expectations and understandings that reduce socio-economic uncertainty and thus enable a fundamental capacity for action – that generate social agency – necessarily do so in a variegated and differentiated manner. Structures of expectation are laden thus not just with neutral ‘steering capacity’, but also with the potential for realizing profoundly normative visions and agendas for the nature of social action. Accordingly, these structures of expectations are manipulable by actors in order to achieve particular objectives and interests.

Accordingly, to take seriously the status of financial systems as social systems further involves recognizing that the economic outcomes produced by a risk
environment will have socio-political implications. As China’s political economy has become increasingly rationalized, but rationalized around the power of the CCP, both the management and exploitation of socio-economic uncertainty have been integral and central to the path of market-led economic reform under the authoritative control and guidance of the CCP. Dimensions of social embeddedness operate as mechanisms for the exercise of power through their role in mediating financial capital by shaping actors’ expectations of the results of particular pathways of action. For example, cognitive frames emerged that fundamentally disrupted expectations for the extension of credit. Expectations for the use of capital shifted from underpinning egalitarian social policies through the all-encompassing firms of a command economy towards a mechanism for further capital accumulation. The ways in which this capital would be accumulated, however, was to remain firmly within the control of the CCP. Implementing this notion of progress and development would thus lead to an institutional framework that fostered growth and retrenched control at the same time:

On the one end, the financial framework has arranged a forced marriage between the deposits of the masses and state-owned commercial banks. On the other end, the illegal fundraising law has served as a means to keep public deposits from running away from their arranged marriage. This in effect serves as an official announcement that financial independence is forbidden. (Wang, 2013)

Finally, their positions within CCP-dominated network structures mean that an actor’s role in this process of economic growth and accumulation of capital comes to be rooted in their relationship to the institutionally mediated networks of the financial system and the ease with which they are therefore able to access capital, rather than any degree of economic efficiency deriving from either private or state ownership. These dynamics represent a response to socio-economic uncertainty that generates stability but also propagates power-infused relations. It produces particular outcomes in terms of access to socio-economic opportunities (in the form of financial capital). The overall outcome of any particular risk environment as conceived thus is to create certainty for some economic actors whilst preserving a state of uncertainty for others. This differentiation makes it easier and cheaper for the former to access capital than the latter (Johansson, 2012). In this way a particular configuration of a risk environment represents both a functional need for socio-economic stability, as well as the interest-driven exercise of socio-economic power.

In sum, the key to CCP control over the broader trajectory of economic development in China has been at once to embrace uncertainty, as the process of managing expectations and thus uncertainty itself generates opportunities to consolidate authority. Mechanisms of CCP control reduce uncertainty, even as they concentrate the ability to do so within a particular social grouping. The need for these cognitive, institutional and networked mechanisms for
mediating (and thus translating) the social world into a comprehensible environment for action has traditionally been conceived of as being satisfied either by the structures of state regulation or structures of market exchange. In China’s emergence as a capitalist political economy, the role of the CCP disturbs these traditional categories of state and market, not because the functional characteristics of hierarchical control or contractual exchange as a means of organizing socio-economic reproduction have been eliminated or even transformed, but rather because the imperatives of power-infused capitalist accumulation find expression in how the CCP itself constructs frames, institutions and networks as mechanisms for orienting action towards economic growth as a basis for satisfying the priorities of social stability and order.

**Constructing a risk environment, 1990–2000**

I utilize cognitive frames, social institutions and relational networks to operationalize socio-economic uncertainty as both a catalyst of stability-generating social structure and a product of the modulation of social agency through that social structure. These dimensions of embeddedness generate insight into the role of the CCP in constructing a 'structured space of power' in the 1990s through which the forces of both capital and of politics could be transmitted. As such a structured space, the Chinese risk environment is based on roles, rather than necessarily on principles (Redding & Witt, 2007). The Chinese emphasis upon ordered relationships and on the pursuit of stability in those relationships generated a powerful and distinct foundation for the establishment of the frames, institutions and networks that constituted a risk environment following Deng Xiaoping’s 1991 southern tour (Hamilton, 1996). As mechanisms not only for reducing uncertainty, but reducing uncertainty with particular implications for the distribution of social agency and thus power, these dimensions help explain the unique and peculiar path of financial reform during the early and mid-1990s as a product of the CCP’s active and deliberate construction of a financial system that would serve both the economic function of economic growth and accumulation as well as the political function of continued CCP control.

Although reform and opening commenced in the late 1970s, the Party line that has undergirded economic policy-making in the reform era emerged with the conceptual and ideological development of the socialist market economy [社会主义市场经济] in 1992. What has been labelled the ‘neoconservative legacy’ (Eaton, 2011) was a catalyst for the reassessment of the path of reform that had been adopted during the 1980s prior to the Tiananmen Square protests of 1989. During the 1990s, rather than the CCP becoming detached from administrative hierarchies and institutions of state, the Party was even more tightly integrated into other chains of command (Naughton & Yang, 2004, p. 8). It was thus in the period 1992–1997 that the duality of the financial system began to emerge clearly as a critical feature of China’s political economy. It was the product of a
commitment to the active construction of a capitalist political economy under the continued authoritarian rule of the CCP and thus constituted the roots of a discourse and logic of economic growth as the means by which the interdependent goals of legitimacy and stability could be pursued.

The cognitive foundations of the post-Tiananmen risk environment

Cognitive frames are ‘schemata of interpretation’ (Goffman, 1986) that function heuristically to reduce uncertainty by contributing to the normative and mental organization of a social environment (Blyth, 2002, p. 37) and thereby to the organization of the risk environment in two ways: firstly as lenses through which interpretations of institutions and social networks are refracted, and secondly as social structures in their own right that both catalyze the formation and legitimize the perpetuation of such institutions and networks (Beckert, 2010, p. 610). In the aftermath of Tiananmen, ‘neoconservative’ concepts came to take a powerful hold on politico-economic thought. However, this was not simply a matter of reform-averse conservatives holding sway over liberal-minded reformers. In the post-Tiananmen period, the Chinese Party leadership was confronted with a pressing need to reconstruct its interpretation and understanding of ‘reform’. The validity and appropriateness of Deng Xiaoping’s vision of China’s reform path – particularly as it had manifested in Zhao Ziyang’s leadership of the Party – was contested by conservatives in terms of it rendering the CCP vulnerable to a diminishment of control over a process of socio-economic change that was clearly in motion throughout China (Fewsmith, 2008, pp. 21–22). These questions would be intensely debated and contested for the next two years, revolving around the fundamental issue of whether a market economy was fundamentally capitalist in nature or if it could potentially exist in a ‘socialist’ economy [市场姓社还是姓资]. The process of renegotiation of the ideological and political-economic foundations of China’s now suddenly uncertain development trajectory necessarily addressed two forms of challenge: the political challenge of defining the foundation for the Party’s ruling legitimacy, and the economic challenge of shaping policies and institutions that would enable this foundation to be consolidated and built upon.

These pressures confronting the CCP during the years following 1989 precipitated a deep-seated reconsideration of the bases for the Party’s legitimacy and policy-making mandate. The search for legitimacy in the post-Tiananmen era produced a reconsolidation of economic growth and development as the new raison d’être for the CCP. However, under the conditions of extreme uncertainty that suddenly faced CCP policymakers, financial elites, entrepreneurs and the managers of SOEs, it was virtually impossible for any of these actors accurately to gauge the levels of risk that were attached to financial decisions. As one retired government official stated,
not only were we all about to jump into the sea [of commerce] [下海], but we were doing it without any changes in politics. What [CCP leaders] said was strong and clear, but to be honest, it was all extremely confusing. (BJ:2012.10.12)

The attitudes, principles and ideas that would guide financial reform in the years following did not emerge from an ideological and intellectual vacuum. The ‘rectification’ of the ‘market economy’ [正名市场经济] was a process that generated the space for developing positive plans for subsequent reform; it laid the basis for the ‘socialist market economy’, and thus as a conceptual heuristic it provided the cognitive frame that would enable actors to reorient their action within the financial system towards a different conception of the relationship between the state and the market.

This entrenchment of the discourse of economic development in the post-Tiananmen era had particular ramifications for the financial system. Loss of control over the money supply was regarded as one of the greatest risks for social stability (Zhu, 2011 [1994]), whilst the provision of bank credit constituted a crucial component of fuelling the necessary high-speed growth. ‘Doubling down on development’ also meant doubling down on capital given China’s capital-scarce circumstances at the time, and it meant that the CCP was compelled to begin to confront the question of how to construct a modern financial system that would not disembed itself from either the real economy or society, and especially not the CCP itself that mediated between the two. The real dimensions of the conundrum facing the Party in the ideological and theoretical debates of the early 1990s are apparent in the following statement by a retired official:

You [the author] ask about the question ‘does the market have a socialist or capitalist surname?’ [市场姓社还是姓资], but I think that in those days, the question was not just about the market. The market was already a reality for China. The question for me at the time [the mid-1990s] was really ‘does capital itself have to be capitalist?’ [是否资本一定要属于资本主义]. Deng Xiaoping seemed to believe that the answer was no, and Zhu Rongji seemed to agree with him. (BJ:2013.04.07)

In this way, the consequence of Deng’s successful drive to embed the CCP’s legitimacy within its capacity to generate economic development was to generate a need for transformation of the financial system. Furthermore, it became necessary to do it in a way that ensured not only the market, but capital itself retained an allegiance to socialist ideology.

The concept and label of the ‘socialist market economy’ was a crucial lens through which actors were able to generate intersubjective understandings of socio-economic possibilities and constraints. As a common reference point, it enabled the development of consensus around the need for a particular path of financial reform. But further, it generated faith and credibility in the ability of the central government to secure economic growth without losing
control of the economy. In the post-Tiananmen reassessment of China’s path of socio-economic development, there was one constant: the CCP would remain at the heart of the political system. Understanding frames in this light draws attention to the multivocality of CCP authority in China, in which the ambiguity surrounding the nature of CCP rule is at once a producer of socio-economic uncertainty within broader society, as well as a solution for coping with that uncertainty. Yet this was by no means incompatible with processes of institutionalization, rationalization and systematization of social structures and decision-making mechanisms. In order to generate the economic development that now more than ever constituted the Party’s basis for socio-political legitimacy, commercialized control and guidance under the leadership of the CCP would come to be regarded as the key to the realization of a socialist market economy and thus the reinvigoration China's development. This concept of the ‘socialist market economy’ is therefore not simply the oxymoronic manifestation of an ideological desperation amongst China’s political elite, but rather is a crucial and subtle cognitive frame that takes the necessarily authoritarian basis for CCP rule and combines it with the belief that the market is a tool for realizing economic aims, rather than a politically significant institution that constitutes a normative end in and of itself. Such ideas have played a crucial role in framing the construction and evolution of the institutions and networks that underpinned the particular path of economic development in the 1990s, and this role is the subject of the next sections.

Constructing the institutions of a ‘modern’ financial system

Establishing the institutions of a ‘modern’ financial system was recognized as an essential component in the construction of a ‘socialist market economy’, yet many of the specifics of the necessary reform were not spelled out within the broader ideological debate concerning the ‘market’ and ‘plan’ that was unfolding at the time (Wu, 2012a). The nature of social relations in Chinese society raises the issue of social institutions and the role that they play in the rational organization of social order. A political structure based on the notion of the fundamental autonomy of the individual, with the rigidity and constitutionalizing nature of ‘rationalized’ laws and codified norms, has long been impractical and undesirable in China. The historical difficulty of maintaining rule by jurisdiction in China meant that it was role compliance, rather than formal legal structures that protected social order (Wright, 1962). The entire network of people joined through a set of relationships is implicated when one person fails to perform appropriately (Hamilton & Zheng, 1992). Already 28 years old when it forged the modern Chinese state in 1949, the CCP plays a crucial role in this ordering of social roles: ‘to the revolutionaries, a state constitution surely did not mean something like a contract that a democratic government makes with society or an agreement on how political power should be divided and shared’ (Zheng, 1997, p. 47). It is the CCP that provides coherence and consistency across a
fragmented and decentralized state, as its institutional presence extends across all branches and levels of the bureaucracy (Florini et al., 2012).

The sociological role of the CCP’s ‘sinews of governance’ (Yang, 2004, p. 121) thus begins to come into focus. Yet the CCP’s role within the institutionalization of governance in China has only tangentially intersected with its legalization and its rationalization. In its interpenetration of the bureaucratic state, the CCP disrupts the coherency of these concepts as they are ordinarily understood. As it has presided over an increasing institutionalization of the various structures of governance, the CCP has sought to ‘maintain its real authority by working within the framework of the new constitutionalist rules’ (Bo, 2004, p. 74). As a governmental advisor expressed it, ‘the question of ultimate ownership is not the most important one, but rather whether or not [CCP] cadres can be trusted to be commercially focused’ (BJ:2012.06.16). The same assessment can be made of the CCP’s mode of governance over the financial system: as it has embraced the conceptual framework and institutional architectures of a ‘socialist market economy’, it has nevertheless adapted itself and its relations to other governance structures in order to preserve its real authority over the evolving political economy. As the process of marketization unfolded, the need to establish modern institutions of finance have come to clash and then be resolved with the system of ‘parallel rule’ that had been adopted from the Soviet model of ‘police patrol’ oversight (Shirk, 1993, pp. 57–58). Parallel rule continues to dictate that the party-dominated institutions of governance be responsible for all important appointments of officials within the financial system (Pistor, 2013).

The result is that China’s banking system has increasingly come to resemble the institutional configuration of any other modern system of financial intermediation, and yet the core feature of financial institutions in China remains their duality. This duality in turn transforms the nature of financial markets and the broader institutional fabric of capital in China. Capital is transformed from a tool for the exercise of ostensibly market power, into a tool for the market-situated exercise not of state power, but the power of a group of actors whose role is inextricably bound up with both the productive functions of the market and the governance functions of the state. These functions are not objectively assigned to financial institutions, nor are they structurally immutable. Rather, it is the social acceptance by core actors of these institutions and, crucially, the terms of that acceptance that are of analytical import in identifying the significance of China’s banking system for the nature of economic growth. The institutional foundations of CCP authority and control thus remain rooted – rationally – in ideological norms and cultural framings, rather than legal rationality.

The financial sector lay at the heart of this rationalization and reconsolidation of the CCP role within the economy. From the point of his elevation to the Politburo Standing Committee in 1992, Zhu Rongji was determined to assert macroeconomic control, and consolidated personal and party control over the financial system in order to restrain lending and reduce inflation, whilst taking steps to elevate savings and provide a source of capital. This was achieved
through institutional reform, but this did not actually create ‘market competition’ within the financial system, but rather a much more effective system of central control. He developed and implemented SOE reform, but the savings that accumulated at the same time as he worked to deflate the monetary base were channelled not towards making sure that laid-off workers were supported, but that large SOEs were bolstered and were given further growth opportunities. The banking system channelled savings from the household to the enterprise sector. Between late-1989 and mid-1993 the overall economic policy priority of the leadership evolved from one of controlling inflation to reigniting growth. However, by the early 1990s the strategy of ‘growing out of the plan’ via dual-track price reform and the transformation of rural enterprise had reached its logical conclusion (Naughton, 1995, p. 274). This meant that the preferential credit policies for state firms, originally designed to shield SOEs from the austerity imposed from 1989 to 1991, quickly turned into conduits for channeling large amounts of bank credit to state firms. In contrast to the 1980s, when the immediate efficiency gains of price reform had propelled growth, China’s rapid economic growth in the 1990s would be based on the rapid accumulation of capital, and particularly physical investment (Knight & Ding, 2012, p. 124). Entrepreneurial expectations of rapid economic growth were crucial for this high investment rate and were supported whilst also controlled by the CCP.

Mechanisms of party control and commercialization emerged and developed in tandem across the institutions necessary for supporting economic activity. One of the most important components of the round of reforms that arose out of the 1993 financial reforms (State Council of the People’s Republic of China, 1993) was the establishment of the People’s Bank of China (PBOC) as a fully functioning central bank at the heart of a modern central banking system (Wu, 2012b, p. 147). Establishing the goal of central banking as that of ensuring price stability for growth was an essential element in creating expectations of a favourable investment climate. High inflation depresses savings as the real interest rate decreases, and interest rate repression was necessary in order to ensure a flow of cheap capital and spur investment. SOEs were growth-oriented rather than profit-oriented *per se* which is what Zhu Rongji desired. Given the necessity and success of price reform, he knew that the CCP needed market forces to drive the real economy, and that it needed to establish a modern central bank in order to allow it to do so (BJ:2014.04.14).

The most striking feature of the reforms of the central banking system was centralization without independence. Zhu Rongji argued that his governorship of the PBOC was irrelevant:

> It doesn’t matter whether I’m the governor of the Central Bank. I’m already responsible for finance and for the banking sector. […] In the case of China, no matter how independent the Central Bank is, it can’t be independent of the State Council. The independence of China’s central bank refers to its independence from local governments and other ministries and commissions under the State Council. (Zhu, 2011 [1993])
The PBOC’s establishment was a deliberate rationalization of central banking, but a rationalization according to the logic of financial and monetary policy serving a developmental strategy rather than a deductive application of market principles.

Throughout the 1980s, state-owned commercial banks (SOCBs) had remained institutionally incapable of performing the ideal liberal role of financial intermediation in an increasingly market-oriented economy. Notwithstanding the shifting legal status of the banks from specialized banks [专业银行] to commercial banks [商业银行] following the passage of the Commercial Bank Law in 1995, the banks remained the bed-rock of government macroeconomic policy (BJ:2012.06.05). Financial repression had been the basis for guaranteeing a cheap and stable source of capital for the fixed-capital investment that was the primary contributor to aggregate output growth from 1990 to 1998. In the investment climate of 1993, the Jiang-Zhu administration sought to prevent the disintermediation of both household and enterprise savings by controlling interest rates. This remained a form of control that mediated between the needs of households and enterprises by subjecting the banking system to significant financial pressure. It was only by entrenching the relationship of mutual dependency between the PBOC and the banks that it was possible to avoid both a banking crisis and a ratcheting up of pressure upon financially fragile SOEs, without producing further inflationary pressure. Thus what liberals had hailed as a milestone in 1993 for financial reform in fact was at the same time being actively undermined by the utilization of the banking system as a system for the PBOC to implement monetary policy as well as retain control over industrial policy and financial intermediation (BJ:2014.04.15). The underlying dynamics of a still-visible relationship between households, enterprises and China’s rapid industrial development were thus established, with a financially repressive banking and financial system residing at its core.

The development of a legal and institutional framework for banking and finance in the early 1990s was thus integral to the national effort to transform and commercialize the financial system. However, neither in conception nor in practice was it part of a strategy to promote the development of financial relationships that would rely upon either a legal-rational state bureaucracy or a secular market in order to maintain their integrity. In other words, financial relationships were placed on a more commercial footing, yet the efficacy of this commercialism itself remained highly dependent upon the role and utility of the CCP itself. Achieving some degree of ideational (and thus ideological) coherency in this template for action therefore was a necessary prerequisite for preserving an intersubjective faith and confidence in the ‘vision’ of the CCP. Whilst a ‘guerrilla policy style’ (Heilmann & Perry, 2011, pp. 12–13) certainly provided a crucial underlying basis for the resilience and policy-making versatility of the leadership during this period, just as the revolutionary CCP was itself founded upon the shared ideological foundations of socialist struggle as the path towards rejuvenation of the Chinese nation, China’s capacity to construct a market-led economy came to be underpinned by an ongoing
transformation of the shared ideological basis for the essential role of CCP leadership in the flow and management of capital.

The networked confidence of China’s finance

The role of social networks – and especially those that emerge out of the CCP – in underpinning the Chinese political economy is widely recognized. Social networks played a significant role in influencing the path of socio-economic development, both by diffusing the cognitive frames that underpinned an institutional fusion of CCP control and economic growth, and by positioning enterprises in relation to each other in terms of access to finance. Arenas for social action embedded constitutively within social networks reduce uncertainty by diffusing information, generating potential courses of action and facilitating collective action. The establishment of trust is a necessary element for economic activity, whether it be hierarchically organized or market-based (Granovetter, 1985). In the context of a society organized through roles rather than principles, the relationships underpinning social networks resolve the problems of trust and co-operation through the construction of institutional forms that embody personalism and hierarchical authority.

The principles through which the CCP underpins systems of governance and economic reproduction thus have a systemic quality; they permeate the institutions of the political economy and its governance, such that the operation of these formal institutions is infused and overlaid with what amounts to a non-state and non-market set of institutional dynamics. Although bureaucracy, market and party are all discursively and nominally separated, they are structurally strongly integrated. The market and the CCP are not simply alternatives to the bureaucracy but intimately connected with it. This is evident throughout China’s financial elites who constitute a dense and overlapping network of party cadres that connect all of the important entities in the financial system, and which make up the core of China’s governance regime for finance. This para-institutional network is rooted in the Party’s ‘position list’ [职务名称表] system, overseen by the central Organization Department of the CCP, a highly secretive body with power such that ‘economic units are afraid of the [National Development and Reform Commission] and all units fear the Organization Department’ (Hamrin & Zhao, 1995, p. xxxvii). As Katharina Pistor has argued,

[human resources management] has become a substitute to direct state control, … and a complement to the new rule-based formal mechanisms of control. The CCP’s control over [HRM] intensified as the state apparatus loosened its direct control over the financial system. (Pistor, 2013, p. 3)

As one Ministry of Finance official stated in relation to the contemporary role of financial elites, ‘the chairmen of the large banks cannot be said to be real
bankers. They are politicians’ (BJ:2012.06.06). At the heart of this remains a focus on the incentive structure for banking management and behaviour. During the 1990s, the appointment of all leading financial cadres was overseen by the Organization Department under the 1990 position list, which had been republished in response to the events of 1989. The capacity of the Party to control the transfer and promotion of these cadres was strengthened (Burns, 1994), as now–prominent cadres such as Zhou Xiaochuan, Wang Qishan, Dai Xianglong, Liu Mingkang, Guo Shuqing and Shang Fulin were rotated progressively through the primary financial institutions that were emerging in the early 1990s: the five SOCBs, three policy banks, the PBOC, the CSRC and SAFE. One former member of the monetary policy committee describes this process of rotation and placement in the following terms:

They don’t think the same way, but all of the top financial guys have spent their careers being moved around by the Party, through the central bank, the state banks, the regulators. They have different ideas about how to do it, but they all know that their careers depend on protecting the Party. And the ones who are at the top now, they were groomed beginning in the early 1990s. (BJ:2014.04.15)

In this manner networks functioned through hierarchical injunctions and the instillation of unified party discipline amongst cadres. One retired banker who was a CCP Committee member within a state-owned commercial bank recalls the manner in which they were required to read, study and then debate the ‘instructional handbook’ of Dai Xianglong (then Governor of the PBOC), written for ‘leading cadres involved in financial work’ (BJ:2013.08.09; Dai, 2001).

Networks do not operate just as mechanisms for transmission of political priorities, but also play a significant structural role in economic action (Granovetter, 2005, p. 35; Streeck, 1997). This economically significant role of networks emerged in tandem with the institutional deepening of the financial system in the 1990s in China, manifesting through networks of economic interdependency that generated the requisite levels of certainty and stability of expectations necessary for economic decision-making. This dovetails with the use of unofficial lending criteria that are closely tied to the diffusion of CCP priorities (Yeung, 2009). These lending patterns were heavily concentrated through political networks that permeated all levels of the CCP. Although the passage of the Commercial Banking Law in 1995 and the establishment of the policy banks was a clear indication to banking cadres that changes were afoot in the role of the newly created ‘commercial’ banks, this was by no means interpreted as commensurate with a wholesale transformation of the relationship between the state-owned industrial sector and the state-owned banking sector (BJ:2012.06.14; BJ:2012.10.10). Rather, there was a shift towards commercialization, with loan officers beginning to favour lending to more profitable SOEs over less productive ones. This continued reliance upon networks as compatible
with commercialized rationalization is explicable in light of the fact, as one govern-
ment banker stated, that ‘for the [CCP], the market has always been a tool for
achieving a number of goals, and therefore it makes sense to try and improve the
operation of that tool’ (BJ:2014.04.18).

During the 1990s, Chinese SOCBs discriminated positively in favour of
SOEs, such that those cities with higher SOE shares in total output enjoyed
greater access to bank loans (Wei & Wang, 1997). In 1997, privately owned com-
panies received only 5.7 per cent of total loans from SOCBs, notwithstanding
their contribution of over 20 per cent to overall industrial output (People’s
Bank of China, 1998, p. 91). A variety of problematic loan relationships remained
common. ‘Hatted loans’ [带帽下贷], ‘designated loans’ [点贷] and ‘special
project loans’ [专项贷款] were all means by which party officials were able to
secure finance for projects both beyond the original credit plan and in order
to satisfy growth targets (Lì, 1994). This would have an adverse impact upon
the credibility and viability of the credit plan; however, the abolition of the
credit plan was a development that was acceptable to cadres both within the
bureaucracy and within industry as long as they retained confidence in the
underlying support of the central government and their ability to obtain the
necessary finance (BJ:2012.11.24). It was growth rather than profit that remained
the underlying rationale for industrial policy, and the networks of CCP authority
that extended through the financial system enabled this goal to be pursued.

Conclusion

China’s post-Tiananmen socio-economic development has been characterized
by growth, stability and widening imbalance within an increasingly authoritarian
yet increasingly marketized political economy. In this paper I have sought an
explanation of this trajectory by conceiving the process of change in China’s
financial system as an ongoing process of managing the uncertainty inherent
in financial decision-making, one that has been underpinned in China
through the role of the CCP at the nexus of the state and the market. The
role of the financial system in China’s development has, as for all other financial
systems in contemporary capitalist societies, been founded upon a set of ideas,
institutions and networks that enable socio-political uncertainty to be evaluated,
financial risk to be managed and economic activity to take place. Through this
process, control over the flow of financial capital is a source of both the power to
incentivize economic growth, and the power to distribute the benefits of this
growth in uneven ways. Yet, as I have sought to demonstrate, the ways in
which these flows of capital are managed and controlled are not deterministically
reducible to either ‘the market’ or ‘the state’; rather, they must be assessed on
the basis of a broader array of mechanisms that allow actors to generate stable
reciprocal expectations, and thereby to manage the fundamental uncertainty
that afflicts all social action. In China the CCP itself is a large and fundamental
element in this array, and the reason that China’s path of development is too
often mischaracterized and misinterpreted is due to an assumption that the institutions of capitalist modernity must all somehow be pressed out of the same mould. As we have seen, China presents many reasons to recognize that perhaps this is not in fact the case.

In responding thus to the increasing institutional diversity of capitalist developmental paths, the paper contributes to the emerging literature in comparative capitalism that sees ‘illiberal’ variants of capitalist development not as a perennial contest between state and market actors, but rather as a dynamic interpenetration of private and public sector actors (see also Wengle, 2012). As I have argued here, this interpenetration is embedded in historical lineages, residual patterns of socio-cultural relations and existing institutional arrangements that determine how the uncertain nexus of state and market comes to be filled in with stable, uncertainty-reducing expectations. In developing and applying a framework to understand China’s course of capitalist financial development on its own terms, it takes steps towards opening up the potential for fruitfully comparing how, in political economies as deeply distinct as China and the United States, remarkable continuities exist in how debt burdens accumulate, concordant financial risks are unequally distributed and the profit-making potentials of financial systems are exploited by certain social groupings more effectively than others. From this perspective, it dovetails with the work of scholars such as Nelson and Katzenstein (2014) who in their analysis of financial developments in the United States leading up to the 2007 sub-prime mortgage crisis have underscored the sociological significance of uncertainty in affecting the interpenetration of state and market, notwithstanding a political economy’s ostensible status as more, or less, liberal.

In this fashion, the paper also highlights how the insights of economic sociologists generate significant scope for ameliorating some of the difficulties encountered by comparative political economists in addressing the mixed and variegated patterns of state–market relations of a wide range of political economies across the traditional spectrum of ‘liberal’ and ‘co-ordinated’ market economies. The role of the CCP, as I conceptualize and analyse it, illustrates the difficulties of relying upon these existing categories to understand the intersection of universal logics of economic development and the particular social institutions through which these logics manifest. The resulting implication is that unsustainable financial imbalances arising out of deeply political processes of capitalist development can and should be understood separately from the epithets of liberal or illiberal capitalism. The premise of Deng’s ‘socialist market economy’ had been that markets are neutral economic tools (Zhang, 1996, p. 214), capable of being deployed and manipulated in order to advance broader social goals under the direction of an ideologically cohesive party apparatus. Yet the CCP-led consolidation of control over capital by no means constituted an effective means of rendering it a neutral force for economic and social development. The cognitive frames that emerged in the aftermath of Tiananmen were not limited to ‘how-to’ rules, but had also profound implications on distributional
outcomes and ‘orders of worth’ (Boltanski & Thévenot, 2006). What Deng Xiaoping failed fully to appreciate was that pursuing economic growth inevitably involves the construction of ‘explicitly moral projects, saturated with normativity’ (Fourcade & Healy, 2007, pp. 299–300). As China’s experience of CCP-led development illustrates, socio-economic uncertainty is an omnipresent and fundamental feature of contemporary capitalist society, and, notwithstanding institutional efforts to tame and manage that uncertainty, it represents also a space for actors to conceive differing normative visions of the world, and for them to exercise power in pursuit of those visions. The macro-political consequences of these micro-sociological processes can and should be analysed in comparative and holistic context.

Finally, such a perspective compels us to rethink our analyses of a number of issues and areas within China’s financial system and its role in the country’s developmental trajectory. Increasing liberalization in the financial sector will not necessarily produce a more sustainable and broad-based path of growth – as this paper has argued, the process of marketization was itself contingent upon the continued role of the CCP as the guardian of financial stability. As a result, the deepening contradictions and tensions of capitalist development will be reflected less in the evolving balance between ‘state intervention’ and ‘market autonomy’, and more in the variegated distribution of power and agency amongst actors according to their ideational, institutional and relational connections to existing structures of authority and control. As the financial tensions of China’s rapid economic expansion evermore acutely reveal themselves, these structures are changing along with the constitutive foundations of the CCP itself, as the institutions and networks of power that in aggregate make up the CCP increasingly straddle the expanding private sector. The ‘progress’ in reform that was set in motion in the early 1990s, and which is now intensifying under the tenure of Xi Jinping, is less about vesting more authority over capital flows in household savers rather than in party-dominated relational networks and institutions, and more about stabilizing the balance between those who exercise control over capital within the market and those who do so within the administrative state. Now, as then, the locus of this balance remains the CCP, and the development of China’s financial system and its capacity to support broad-based and sustainable real economic growth will therefore remain tied closely to the ways in which the CCP manages and adapts to this process of change in its ruling mandate and authority.

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