CHINA RECRUITS TOP SOE EXECUTIVES INTO GOVERNMENT: A DIFFERENT BREED OF POLITICIANS?

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EAI Background Brief No. 661

Date of Publication: 30 September 2011

Executive Summary

1. Since 2006 a growing number of the top executives of China’s giant state-owned enterprises (SOEs) have taken up leadership positions in provincial governments, a new trend in Chinese politics. These executives are usually assigned as deputy governors but recently more are promoted to become governors or even provincial party secretaries.

2. The impetus came from the cadre rotation system formally introduced in 2006 by the Central Organization Department, which is the “human resources department” of the Chinese Communist Party (CCP). Most SOE top executives are CCP members and considered cadres of the party. In the official pecking order China’s largest SOEs are ranked at the vice-ministerial level.

3. The cadre rotation system is designed in part as a cadre training program that routinely swap cadres in different positions across sectors and localities so that they could gain broad experiences in the various aspects of government operation.

4. Since the end of the 20th century, China’s central SOEs (央企) have been consolidated into one hundred plus giant conglomerates and become powerful players in the world as well as the Chinese economy. Most of them are listed companies that play by global rules. In 2011, China has 69 companies in the Fortune Global 500, surpassing Japan's 60, second only to the 133 of the US.

5. Overall, top SOE executives constitute a valuable pool of human resources for the CCP. These CEO-turned local top leaders inject fresh blood into the CCP’s cadre corps and in the long-run may change its overall characteristics.

6. Business executives not only bring into the government fresh knowledge of how the economy really works but also a new management style that emphasizes efficiency, timeliness, flexibility, and an ethos of customer service.

7. The new positions of these executives greatly extend their career ladders in the party-state hierarchy, bringing them more prestige and a higher political status. These privileges are however accompanied by a considerable reduction of income, the freedom to make quick decisions independently, as well as the autonomy to move around resources.

8. The business-government cadre swap raises the issue of career incentives. It may create adverse incentives for SOE executives as they may not put the interests of enterprises first and may even sacrifice these interests for their career with the party-state.

9. This opens the door for government interference in business decisions and incorporate state policy objectives into business operation. In exchange the state is often obliged to create either monopoly profit or soft budget constraints for SOEs. It is one of the reasons Chinese SOEs can grow quickly into Fortune Global 500 companies in large numbers but are not globally competitive.