# 7

# *Business Interest Groups in Chinese Politics: The Case of the Oil Companies*

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> Monopolies and powerful industrial groups such as telecommunications, oil, electric power and automobiles recently have started to become special interest groups and have all begun to exert an obvious impact on the formulation of public policy.
>
> Sun Liping, in *Zhongguo xinwen zhoukan* (2006)

Throughout the history of the People's Republic of China (PRC), the oil industry has been a powerful interest group. As a strategic sector of the economy, the industry has had access to the top leadership and made its voice heard in the policymaking process. It has produced successive generations of leaders who used their accomplishments in the oil sector to advance their political careers—especially in the 1950s and 1960s when the discovery of the Daqing oil field and the achievement of self-sufficiency in oil was one of the country's few success stories. Historically, the most prominent national leaders from the oil industry were Vice Premier Yu Qiuli and several of his associates from the State Planning Commission. Viewed as a "petroleum faction," this group had a large impact on economic policy, especially in the 1970s.[1]

In recent years, the industry has continued to influence decisionmaking and elite politics, but the relationship between the national oil companies (NOCs) and the party-state has changed.[2] Although still subject to party-state control, the companies have become more autonomous and influential under the umbrella of China's rapidly expanding, increasingly market-oriented, and internationalizing energy sector. Now that they have subsidiaries listed on foreign stock exchanges,

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global business portfolios, and an eye on the pursuit of profits, their domestic and international interests do not always coincide with those of the party-state. Moreover, they are often able to advance these interests not only because of their substantial financial, human, and political resources but also because of the unanticipated surge in China's oil demand and imports since 2002, which has increased the value of China's NOCs to Beijing. Some of the executives of these companies have become competitive candidates for top political posts because the managerial skills developed at the helm of some of China's most profitable and internationally competitive state-owned enterprises (SOEs) are transferable to the government of a country integrating into the global economy.

Marketization and globalization have had an impact on the relationship between the party-state and SOEs in other sectors as well, notably telecommunications, automobiles, and steel.[3] As a result of their growing economic might, these firms are also helping to intensify the diffusion of power in Chinese politics. This aspect of China's changing political landscape and its implications for the state's policies and leadership, as exemplified by the growing influence of the NOCs, is the subject of this chapter.

## Relationship between the Party-State and the NOCs

China's three major NOCs—China National Petroleum Corporation (CNPC), China Petrochemical Corporation (Sinopec), and China National Offshore Oil Corporation (CNOOC)—were all created from government ministries in the 1980s. CNPC, formed in 1988 from the upstream (exploration and production) assets of the Ministry of Petroleum Industry (MPI), is the largest oil producer in China and the eighth largest in the world.[4] Sinopec, established in 1983 from the downstream (refining and marketing) assets of MPI and the Ministry of Chemical Industry, has the largest refining capacity in China and the fifth largest in the world.[5] CNOOC, formed in 1982 as a corporation under the MPI and modeled after the international oil companies, was established to form joint ventures with foreign firms to operate in China's territorial waters and is primarily an upstream company that dominates China's offshore oil industry. CNPC and Sinopec are both ministry-level companies, a bureaucratic rank that they fought hard to keep so as to maintain a privileged position when dealing with the state.[6] CNOOC has the lower status of a general bureau. The current general managers of all three companies—Fu Chengyu (CNOOC), Jiang Jiemin (CNPC), and Su Shulin (Sinopec)—all hold the rank of vice minister.

Each company has a subsidiary listed on the Hong Kong and New York stock exchanges, which holds its best assets except for CNPC's investments in Sudan and Sinopec's overseas projects. The parent companies are the majority share-

Table 7-1. *Internationally Listed Subsidiaries of China's National Oil Companies, 2006*

| *Listed* | *Parent* | *Shares owned by parent (%)* |
|---|---|---|
| PetroChina | CNPC | 88.21 |
| Sinopec Corp. | Sinopec | 75.84 |
| CNOOC Ltd. | CNOOC | 66.41 |

Sources: PetroChina, *Annual Report 2006*; Sinopec Corp., *Annual Report 2006*; CNOOC Ltd., *Annual Report 2006*.

holders of the listed companies (see table 7-1). Other shareholders include individual and institutional investors.

Ownership does not always equal control, of course, and this is true for the party-state: its control over the NOCs derives not from ownership but rather from other sources of influence in the party and government. The State Asset Supervision and Administration Commission (SASAC) is the government body charged with exercising formal authority over China's largest SOEs, including the NOCs. SASAC has been a passive authority, however, because it neither harvests their profits (the NOCs and other large SOEs currently are not required to pay dividends to the Chinese government, only taxes) nor appoints their top leaders (although it does choose their high-level managers).[7] The most powerful lever of party-state influence over the NOCs is the nomenklatura system.

*Nomenklatura System*

The party-state's primary instrument of control over the management of China's institutions, including all major SOEs directly under the central government, is the nomenklatura system—a hierarchical system of appointing personnel.[8] All top-level appointments, promotions, and dismissals at these firms rest with the Chinese Communist Party's (CCP's) Organization Department and the Ministry of Personnel (MOP), which functions largely as an arm of the Organizational Department, with many of its officials concurrently occupying positions in the department.[9] The ultimate authority over the top positions in the NOCs lies with the Organization Department, whose decisions are ratified by the Politburo Standing Committee and implemented by the MOP. This authority extends, indirectly, to the firms' internationally listed subsidiaries. The individuals appointed general managers of the parent companies usually concurrently serve as chairmen of the boards of their respective listed companies.

Under the nomenklatura system, NOC managers must learn to balance corporate and party-state interests if they want to advance their political careers. They are evaluated not only on their general performance but also on their commitment to party-state interests. In other words, the secret to success is to demonstrate managerial prowess while not causing problems for the CCP—as illustrated by the fortunes of Li Yizhong and Ma Fucai in the Sixteenth Party Congress Central Committee elections of November 2002.[10]

The congress elected Li Yizhong (a former general manager of Sinopec and chairman of its subsidiary Sinopec Corp.) a full member and named Ma Fucai (a former general manager of CNPC and chairman of its subsidiary PetroChina) an alternate, partly because Li had done a better job handling a sizable worker protest. Workers at China's two largest oil fields, Daqing and Shengli, had risen up when PetroChina and Sinopec Corp. cut staff to make their stock listings in New York and Hong Kong more attractive to investors. In March 2002, tens of thousands of laid-off workers from PetroChina's Daqing oil field launched demonstrations to demand better severance packages than the one-off payments they had received.[11] Then in June 2002, about 1,000 workers laid off from Sinopec Corp.'s Shengli oil field also held protests in an attempt to secure better deals.[12] Whereas Ma refused to give in to the demands of the Daqing protestors, arguing that they had signed binding contracts, Li made concessions to the Shengli protestors.[13] The perception was that Ma, unlike Li, had not been responsive enough to the party-state's concerns about social unrest.[14]

### *Investment Approval System and Other Forms of Party-State Control*

China also controls NOCs through its investment approval system. Domestic investments require the approval of the State Council for projects small or large: these range from oil fields producing 1 million tons a year (20,000 barrels a day), natural gas fields producing 2 billion cubic meters a year, and refineries with an annual capacity of 200,000 tons (4,000 barrels a day) to national crude oil storage facilities and liquefied natural gas receiving terminals.[15] Foreign energy investments in excess of US$30 million require the approval of the National Development and Reform Commission (NDRC), and those in excess of US$200 million have to be reviewed by the NDRC and then submitted to the State Council for approval.[16] Although in theory the government is supposed to authorize NOC investments, anecdotal information indicates that the NOCs have struck some deals abroad and informed the NDRC and State Council after the fact.[17]

Another means of control is CCP involvement in day-to-day decisionmaking. The CCP has representatives at all levels of the NOCs whose approval may be required for even relatively minor decisions. According to an international consultant whose firm conducted a study for a division of one NOC, the division's managers needed the permission of the division's party secretary to hire and pay the consultancy.[18]

Further leverage is achieved through credit from China's state-owned banks, especially the three policy banks in charge of state-directed lending: the China Export-Import Bank, the China Development Bank, and the Agricultural Bank. Although the NOCs are not as dependent on government funds as they were in the past because of their strong cash flows, loans from the state-owned banks, especially on concessionary terms, still function as carrots and sticks that the party-state can wield over the NOCs.

## NOCs' Growing Independence and Power

As mentioned earlier, NOCs are becoming more autonomous and less influenced by the party-state—to the concern of Chinese officials, academics, and the media alike. Some in these quarters view the NOCs as a "monopolistic interest group" that prioritizes profits over social welfare, with a subsequent impact on public policy.[19] They have come to be considered an interest group for a number of reasons: their subsidiaries are listed on foreign stock exchanges, their profits are growing, senior management is becoming internationalized, and their role in securing oil imports and their relative strength vis-à-vis the central government's energy bureaucracy are increasing.

### *Internationally Listed Subsidiaries*

When CNPC, Sinopec, and CNOOC listed their subsidiaries on the New York and Hong Kong stock exchanges in 2000–01, they became exposed to the influence of actors other than the party-state—not only the stock exchanges themselves but also entities such as the U.S. Securities and Exchange Commission, international auditing and engineering firms, independent shareholders, and members of the companies' boards of directors. As the following example illustrates, a decision by independent shareholders may now compel these companies to take actions that run counter to their interests.

In December 2005, the independent shareholders of CNOOC Ltd., a subsidiary of CNOOC, vetoed an agreement between CNOOC Ltd. and CNOOC that would have granted CNOOC the right to acquire oil and natural gas assets and given CNOOC Ltd. the option of subsequently purchasing these assets.[20] Before it was listed on the international markets, CNOOC Ltd. moved to increase its attractiveness to foreign investors by securing from CNOOC the exclusive right to engage in exploration and production.[21] However, CNOOC Ltd. decided to reconsider this noncompete agreement after it failed in its bid for Unocal (in part because of weak political support from the Chinese government) whereas unlisted CNPC succeeded in its bid for PetroKazakhstan (allegedly because of Beijing's involvement and CNPC's ability to conduct negotiations without pressure to disclose information to shareholders).[22] Although the proposed amendment to the agreement would have benefited CNOOC Ltd. by transferring acquisition risk from the shareholders to the parent company and enabling its parent to take advantage of greater political support from Beijing, the independent shareholders voted it down for fear that CNOOC and CNOOC Ltd. might engage in transactions that benefited CNOOC at their expense.[23]

### *Rising Profits*

The profits of PetroChina, Sinopec Corp., and CNOOC Ltd. have increased substantially in recent years largely because of the rise in the price of oil, from $12.00 a barrel in 1998 to $67.00 a barrel in 2006.[24] During this period, their combined net income increased nearly fourteenfold, from ¥16 billion to ¥237 billion.[25] In 2005 the companies' pretax profits were equal to 1.6 percent of gross domestic product (GDP).[26] Higher profits have meant larger contributions to the government. Between 1998 and 2006, the total amount of taxes remitted by the three companies grew nearly eightfold, from ¥10.2 billion to ¥86.5 billion.[27] Their tax payments accounted for 15.9 percent of all the corporate taxes collected in 2005.[28]

To many Chinese observers, it seems only logical that this financial growth has made the government more responsive to NOC interests. After all, some point out, the leadership is under mounting pressure to spend more money on social projects such as education, health care, and pensions, and the NOCs are helping to provide the necessary additional revenue.[29] Although it is difficult to determine exactly how and to what extent higher profits and taxes translate into greater political influence, it seems that the companies' contributions to the government's coffers have bolstered their ability to shape government decisions.[30]

### *Internationalization of Senior Management*

With overseas expansion, China's NOCs are reassessing the kind of personnel needed for senior management posts if the firms are to compete successfully in the global business environment. Thus the rising generation of senior managers will differ substantially from their predecessors in their educational credentials, worldviews, business practices, and international experience. As the number of executives who have worked and studied abroad increases—especially in the fields of business, law, and accounting—these companies will become more and more autonomous and exert their influence on the party-state (because the skills they possess are in short supply in Chinese industry and government).

The current senior managers of PetroChina and Sinopec Corp. closely resemble their predecessors in their backgrounds (primarily engineering or geology), career tracks (spent almost entirely with their respective companies), and lack of

Table 7-2. *CNOOC Ltd. Senior Management Team, 2006*

| *Name* | *Year joined* | *Current position* | *Year of birth* | *Education* | *Foreign study* |
|---|---|---|---|---|---|
| Fu Chengyu | 1982 | CEO | 1951 | MS | University of Southern California |
| Zhou Shouwei | 1982 | President | 1950 | PhD | . . . |
| Wu Guangqi | 1982 | Compliance officer | 1957 | MBA | . . . |
| Yang Hua | 1982 | Executive vice president; CFO | 1961 | MBA | MIT |
| Victor Zhikao Gao | 2000 | Senior vice president, general counsel | 1962 | MA/JD | Yale University |
| Liu Jian | 1982 | Executive vice president | 1963 | MBA | . . . |
| Chen Wei | 1984 | Senior vice president | 1958 | MBA | . . . |
| Zhang Guohua | 1982 | Senior vice president | 1960 | BS | University of Alberta |
| Li Ning | 1983 | Senior vice president | 1963 | MBA | . . . |
| Chen Bi | 1982 | Vice president | 1961 | MS/MBA | Edinburgh Heriot-Watt University |
| Zhu Weilin | 1982 | Vice president | 1956 | PhD | . . . |
| Zhu Mingcai | 1985 | Vice president | 1956 | MBA | Lancaster University |
| Fang Zhi | 1982 | Vice president | 1962 | MBA | University of Birmingham |

Source: CNOOC Ltd., *Annual Report 2006*.

experience studying or working abroad. At CNOOC Ltd., by contrast, the majority of senior managers were educated abroad and hold MBA degrees (table 7-2), while also including some engineers and geologists who joined the company at its creation in 1982. This may reflect CNOOC's substantially longer experience interacting with international companies and its efforts to distinguish itself from its larger and politically powerful peers through innovative managerial practices.

The rising generation of senior managers in China's NOCs will undoubtedly have more international experience than its predecessors.[31] In 1999 CNPC—the company with the most extensive experience abroad—decided to improve its global competitiveness by paying for mid- and high-level managers to earn MBAs in the United States and Canada. As of early 2004, the company had sent sixty students abroad (thirty of whom returned) and subsequently posted some abroad. The company recognized that to continue its foreign expansion it needed to diversify its senior management away from engineers who spent their careers in China and seldom interacted with the outside world and instead seek more individuals with business degrees from world-class universities who could easily build relationships with their counterparts in foreign companies.

### *Increasing Oil Imports*

China's oil profile has changed dramatically since the establishment of the PRC. A net exporter until 1993, China became the world's second largest oil consumer in 2003, after the United States, and the world's third largest importer in 2004, behind the United States and Japan. In the past five years, demand and imports have both soared, demand rising 44 percent (from 5 million barrels a day to 7.2 million barrels a day), and imports 119 percent (from 1.6 million barrels a day to 3.5 million barrels a day). In 2006 imports accounted for 49 percent of the country's total oil consumption and now are projected to jump to as much as 80 percent of consumption by 2020.[32] These statistics have rekindled old fears that a growing reliance on foreign oil could undermine China's economic development and national security.

With the growing dependence on imported oil, China has encouraged its NOCs to acquire exploration and production assets abroad. Senior leaders such as Jiang Zemin and Hu Jintao have promoted overseas investment on the assumption that oil supplies obtained through China's foreign assets will be more secure and less expensive than what the international market can provide.[33] However, oil produced abroad by Chinese companies is likely to face the same transportation risks as oil purchased on the spot market or through long-term contracts. Furthermore, the host country is likely to value it at the prevailing world price to determine royalties and taxes (it will also be subject to a variety of host country risks such as nationalization and war). Nonetheless, Chinese oil executives pay lip service to this idea to demonstrate that they value the interests of the party-state and to gain support for their foreign investments, which advance their corporate interests in reserve replacement (essential for their survival) and profits.

### *Weakening of the Energy Bureaucracy*

As pointed out earlier, NOC autonomy and power have advanced as the government's authority over the energy sector has waned. This situation has provided the companies with more opportunities to influence policies and projects. The decline in state control began in the 1980s with the transformation of energy ministries into companies. In 1988 the State Council formed companies from the Ministries of Petroleum Industry, Coal Industry, and Nuclear Industry and transferred their administrative functions, along with the power sector of the Ministry of Water Resources and Electric Power, to the newly formed Ministry of Energy (MOE). The MOE failed to govern effectively, however. Its authority overlapped with that of the State Planning Commission, and its influence was confined to the electric power sector because the other industries, some of which had vigorously opposed the establishment of the MOE, refused to coordinate their planning and investment.[34]

After the MOE was abolished in 1993, government authority over the energy sector became more fractured, and for the next ten years the State Development Planning Commission (SDPC) and the State Economic and Trade Commission (SETC) vied for primary responsibility over the sector. In 2003 the State Council dissolved the SETC and established the NDRC Energy Bureau, giving it broad responsibilities: it was to coordinate the energy plans, policies, and projects of its multiple departments and of the dozen other ministries involved in energy policymaking and energy SOEs but had neither the authority nor the resources necessary to do so. In 2005 China established the Energy Leading Group, headed by Premier Wen Jiabao, and its secretariat, the State Energy Office (SEO), adding yet another cook to the kitchen.

With a staff well-versed in energy issues and high position in the bureaucracy, the NOCs were poised to take advantage of the energy leadership vacuum. By lending employees to the government's understaffed energy bodies, they were able to influence decisionmaking to advance their own interests. Sinopec employees, for example, became involved in drafting the country's strategic oil reserve law because their company has the greatest expertise in this area.[35] And oil industry veterans Ma Fucai and Xu Dingming became deputy directors of the SEO: Ma had spent more than thirty years in the industry, and Xu, a former head of the NDRC Energy Bureau, worked for both CNOOC and CNPC. Another factor in the NOCs' favor is the small size of the Energy Bureau's staff, which has been so overwhelmed by the vast number of projects requiring approval that it has had little time to devote to forging an energy strategy. Consequently, the projects tend to shape energy policies instead of depending on such policies to guide project approvals.[36]

Being in the high bureaucratic ranks, the NOCs are able to ignore lower-ranking government departments. In most instances, the companies can bypass the Energy Bureau and press their interests directly with China's leadership. Support from a top leader for a proposed NOC project is likely to ease any opposition from the Energy Bureau.[37]

## Impact on National Policies and Projects

The NOCs have influenced national policies and projects in and beyond the energy sector. Their impact within the sector can be seen in China's oil pricing and West-East Pipeline. Outside the sector, their overseas investments have created diplomatic challenges for Beijing.

### *Oil Pricing*

The pressure from China's NOCs on the central government to liberalize domestic prices for diesel and gasoline has grown along with the country's oil imports. For the sake of social stability, the NDRC sets prices for diesel and gasoline to shield consumers, especially farmers and taxi drivers, from the full impact of international price increases. Although domestic fuel prices are linked to prices in the benchmark Singapore, Rotterdam, and New York Harbor markets, they are adjusted only occasionally and generally do not fully reflect the extent of price changes internationally.[38] Consequently, China's NOCs have lost billions of dollars in their refining and marketing sectors in recent years because of state-set prices and rising crude oil import costs.[39]

CNPC and Sinopec, which account for 90 percent of China's refining capacity, have had an effect on the Chinese government's pricing policies for diesel and gasoline through their efforts to maintain profitability in their refining and marketing operations. In response to the widening disconnect between domestic and international prices, CNPC and Sinopec decided to place corporate profitability ahead of social stability. In 2005, when international crude prices rose by 50 percent while China's state-set diesel and gasoline prices increased by only 20 percent, refiners chose to export products rather than sell them in the domestic market.[40] Widespread shortages ensued, especially in southern China, causing long lines at some service stations and forcing others to close. Ironically, the price controls were harming the very consumers they were intended to protect.

The domestic supply cutbacks, combined with the NOCs' lobbying of government officials to liberalize prices, won the companies some concessions. In March 2006 the NDRC raised prices by 3–5 percent and in May by 10–11 percent.[41] Ever intent on balancing profitability against social stability, however, the NDRC subsequently reduced the price of gasoline by 4 percent in January 2007 when crude prices dropped.[42] In addition, Sinopec received subsidies of US$1.2 billion in 2005 and US$640 million in 2006 to partly cover its losses. As long as Beijing maintains control over diesel and gasoline prices, CNPC and Sinopec will remind officials that corporate interests must be balanced against those of consumers.

### *West-East Pipeline*

The West-East Pipeline, which delivers natural gas from Xinjiang to Shanghai, is another example of corporate interests influencing national ones. Premier Zhu Rongji championed the pipeline since it could serve a variety of objectives: help develop Western China, combat air pollution, give him the upper hand in his struggle with Li Peng for control of China's energy sector, and demonstrate

China's openness to foreign investment.[43] Although the pipeline was initially CNPC's idea, proposed in the late 1990s as a means of using resources from the West to support the economy in the East, the company soured on the project when Zhu insisted on foreign involvement.[44] CNPC's subsidiary, PetroChina, was opposed to granting foreign companies access to China's natural gas reserves and in any case considered foreign capital and expertise unnecessary.[45] Under pressure from Zhu, the company reluctantly issued a tender for foreign participation and signed nonbinding agreements with Shell, ExxonMobil, and Gazprom, but subsequently Ma Fucai, then company chairman, reportedly demonstrated little interest and flexibility in addressing the concerns of the foreign companies, especially about the project's rate of return.[46]

Although compelled to undertake a project it opposed, PetroChina was able to influence the development of the West-East Pipeline to its advantage.[47] First, the firm successfully lobbied the NDRC to set the city gate price for natural gas from the pipeline at a level that would allow the company to fully recover the costs of transport and its investment in the project even though these prices were higher than what electric power generators were willing to accept because of restrictions on their tariff structure. As a result, the pipeline has failed to reduce the use of coal in the electric power sector, as originally planned. Second, PetroChina eventually squeezed out the foreign participants. Not only did the company stick to a pricing scheme that did not provide the international companies with an acceptable rate of return, but it also built the pipeline by itself while negotiating with its foreign partners. After Zhu retired in 2003, no one in the Hu-Wen administration put similar pressure on PetroChina to involve foreign companies, and PetroChina terminated the joint venture negotiations.

### *Foreign Policy*

The overseas activities of China's NOCs are challenging a principle at the core of Chinese foreign policy since the founding of the PRC: noninterference in the internal affairs of other countries. NOC investments in states divided by internal conflicts have embroiled the companies in domestic political disputes because they are invariably perceived as supporting one party or another. In January 2007, for example, CNPC employees in Nigeria were kidnapped after the Movement to Emancipate the Niger Delta had warned China's NOCs not to come to the region.[48] Three months later, nine employees of a Sinopec subsidiary were killed in an attack on an oil exploration site in Ethiopia's Ogaden Basin by the Ogaden National Liberation Front, a separatist rebel group that had also warned foreign companies against operating in their territory.[49]

CNPC's operations in Sudan, begun eight years before the violence in Darfur erupted in 2003, have prompted China to move away from the noninterference principle.[50] The company's substantial investments in Sudan (CNPC's second largest source of foreign oil production just behind Kazakhstan) have been a factor behind Beijing's reluctance to pressure the Sudanese government to stop the atrocities in Darfur. Its earlier attitude, summarized in 2004 by then deputy foreign minister Zhou Wenzhong, was that "business is business. We try to separate politics from business."[51] Three years later, Beijing appears to be singing a slightly different refrain. Concerns about China's international reputation (tarnished by the perception that Beijing is turning a blind eye toward the killing of Darfur rebels and civilians to protect CNPC's oil interests) and the realization that China could not stop Western governments from increasing their efforts to solve the Darfur crisis, combined with mounting pressure from those governments to use whatever influence it has—through CNPC's dominance of the Sudanese oil sector and China's permanent seat on the UN Security Council—to persuade Khartoum to change its stance toward Darfur have prompted Beijing to play a more constructive role. In 2007 China helped persuade Khartoum to allow a hybrid peacekeeping force of UN and African Union troops into Darfur and promised to contribute military engineers to that force, winning praise from the United Nations and foreign governments.

## Impact on China's Leadership

The oil industry remains a pathway to China's political elite. Ten full and alternate members of the Sixteenth Central Committee of the Communist Party spent parts of their career in the oil industry (see table 7-3). Four Politburo members—Zeng Qinghong (vice president), He Guoqiang (minister of the Party Organization Department), Zhou Yongkang (minister of public security), and Wu Yi (vice premier)—come from the oil sector. Some current provincial officials also worked for China's oil industry, for example, Zhang Gaoli (Tianjin party secretary), Wang Anshun (Beijing deputy party secretary), and Wei Liucheng (governor of Hainan Province). Su Shulin, a former executive at CNPC and PetroChina, was the director general of the Liaoning Province Organization Department until his appointments as general manager of Sinopec and chairman of Sinopec Corp. in 2007. Sheng Huaren, vice chairman and secretary general of the Standing Committee of the National People's Congress, was a member of the Fifteenth Central Committee (1997–2002) and minister of the SETC (1998–2001). Some high-level leaders became ministers after serving as general managers of CNPC or Sinopec; a good example is Li Yizhong, who served as vice chairman of SASAC before becoming chairman of the General Administration of Work Safety in 2005.

Table 7-3. *High-Ranking Political Elites from the Oil Industry*

| *Name* | *Current position(s)* | *Company/ministry*[a] |
|---|---|---|
| Zeng Qinghong | Politburo Standing Committee; vice president PRC | CNOOC/MPI |
| Wu Yi | Sixteenth CCP Central Committee (member); vice premier PRC | Sinopec/MPI |
| He Guoqiang | Sixteenth CCP Central Committee (member); director, CCP Organization Department | MCI |
| Zhou Yongkang | Sixteenth CCP Central Committee (member); state councilor; minister of public security | CNPC/MPI |
| Zhang Gaoli | Sixteenth CCP Central Committee (member); party secretary, Tianjin Municipality | Sinopec/MPI |
| Wang Anshun | Deputy party secretary, Beijing Municipality | MGMR |
| Sheng Huaren | Vice chair and secretary general, National People's Congress Standing Committee | Sinopec/MCI |
| Li Yizhong | Sixteenth CCP Central Committee (member); chairman, General Administration of Work Safety | Sinopec |
| Wei Liucheng | Sixteenth CCP Central Committee (alternate); party secretary, Hainan Province | CNOOC/MPI |
| Su Shulin | Sixteenth CCP Central Committee (alternate); general manager, Sinopec | Sinopec/CNPC/MPI |
| Ma Fucai | Sixteenth CCP Central Committee (alternate); deputy director, State Energy Office | CNPC/MPI |
| Wang Tianpu | Sixteenth CCP Central Committee (alternate); president, Sinopec Corp. | Sinopec |

a. MCI = Ministry of Chemical Industry; MGMR = Ministry of Geology and Mineral Resources; and MPI = Ministry of Petroleum Industry.

## *Is There a "New Petroleum Faction?"*

Some observers have suggested that individuals from the petroleum industry at the apex of the party-state constitute a "new petroleum faction," as distinct from the original faction whose rise to power began in the 1950s and peaked in the early 1980s.[52] Members of the original faction included Yu Qiuli (vice premier), Kang Shi'en (vice premier), Gu Mu (chairman of the State Capital Construction Commission and Foreign Investment Control Commission), Gao Yangwen (minister of coal), Tang Ke (minister of metallurgy), Song Zhenming (minister of petroleum), Sun Jingwen (minister of chemical industries), Zhang Zhen (minister of the Fifth Ministry of Machine Building), and Lin Hujia (mayor of Beijing).[53]

The current oil faction differs from the original in several ways. First, the group has far fewer shared experiences. Although five members attended the

Beijing Institute of Petroleum (Wu Yi, class of 1962; Zhou Yongkang and Li Yizhong, class of 1966; and Wei Liucheng and Ma Fucai, class of 1970), they were enrolled in different periods, and although they also worked for MPI and the NOCs, it was at different times and in different locations. Petroleum politicians with the closest ties are probably those from CNPC who worked at the Shengli oil field before it was transferred to Sinopec in 1998, especially in the years 1988–96, when Zhou Yongkang was party secretary and director general of the Shengli Petroleum Administration. According to one oil industry insider, a "rule of thumb" is that anyone above the director level at CNPC who worked at Shengli was promoted by Zhou, including Ma Fucai and current CNPC president Jiang Jiemin.[54] Other ties were formed during the development of the Daqing oil field or at the "small" State Planning Commission (SPC) headed by Yu Qiuli from 1964 to 1966.[55]

Second, unlike the original petroleum faction, today's elite politicians from the oil industry do not form a coherent group promoting a common worldview and related policy prescriptions. (Western and Chinese observers alike tend to treat Yu Qiuli and his associates from MPI and the "small" State Planning Commission as a faction, although there is no evidence that these individuals consider themselves a coherent unit.)[56] By contrast, the original faction uniformly advocated centralized planning, deficit spending, and an economic strategy of petroleum-based export-led development. Its main impact on policymaking, which directly contributed to its demise, was the importation of turn-key plants on credit that were paid for with Chinese crude oil exports and thus led to the rapid growth of China's external debt.[57]

Patron-client relationships between petroleum politicians persist, however. Yu Qiuli helped to accelerate the political career of Zeng Qinghong, who played a key role in advancing that of Zhou Yongkang, whose protégés include Ma Fucai and Jiang Jiemin. In 1979, Yu—then the chair of the SPC—hired Zeng as his *mishu* (secretary), and when Yu moved to the State Energy Commission in 1981, he brought Zeng with him as his deputy chief of staff. Yu subsequently helped Zeng secure a series of successively higher positions in China's oil industry, where Zeng met Zhou while accompanying Yu on an inspection of the Liaohe oil field in the early 1980s.[58] Zeng helped secure Zhou's appointments as minister of land and resources (1998), Sichuan party secretary (1999), minister of public security (2002), and member of the Politburo and Secretariat of the Sixteenth CCP Central Committee (2002).[59] When Ma Fucai was fighting to remain general manager of CNPC after a gas well explosion at one of the company's fields in Chongqing killed 243 people in December 2003, Zhou lobbied on his behalf.[60]

### *Changing Profile of Elite Politicians from the Oil Industry*

Although the oil industry has remained a pathway to national leadership, the elite politicians arising from it are more cosmopolitan and have more diverse educational backgrounds than their predecessors. Furthermore, some of the country's oil executives have also held high-level positions in provincial governments.

The globalization of China's economy has created a need for political leaders with experience operating in the international marketplace. China's oil executives can easily meet this criterion, having worked at the helm of firms that rank among China's most profitable and globally competitive businesses. The recent general managers of CNPC, Sinopec, and CNOOC have run companies that have a global presence, with subsidiaries on foreign stock exchanges, and thus have had to operate under the laws of other countries and international standards of corporate governance. In addition, many of the current and rising generations of senior managers have educational backgrounds compatible with China's growing involvement in the global economy; some have studied abroad, while others have earned graduate degrees in business administration in China.

The advancement of oil executives to the political elite is actually part of a broader trend of enterprise managers entering the national leadership, as reflected in the election of seventeen corporate leaders—including four from the oil industry—to the Sixteenth Central Committee, two as full members and fifteen as alternates. Although these individuals constitute a small percentage of this 356-member body (198 are full members and 158 alternates), their membership is an indication that the party-state recognizes the value and transferability of their managerial skills.[61] Many senior managers in other Chinese flagship firms are also well positioned to enter the political leadership ranks because of their youth, educational credentials, and international experience.[62]

The political advancement of Wei Liucheng, a former general manager of CNOOC and chairman of CNOOC Ltd., illustrates the growing importance of managerial skills and of exposure to the global economy. The Sixteenth Party Congress elected Wei as an alternate member of the Central Committee in November 2002, and in October 2003 the Organization Department appointed him governor and deputy party secretary of Hainan Province.[63] A deputy director of the Organization Department told the Chinese media that Wei's accomplishments at CNOOC, including the successful listing of CNOOC Ltd. on foreign stock exchanges and CNOOC's transformation into an internationally competitive energy company, were the main reason for his promotion.[64] One innovation that received the department's special praise was Wei's decision to fill certain vacant director-level positions through an internal bidding process open to all employees.[65]

Su Shulin, the current general manager of Sinopec and chairman of Sinopec Corp. (and a former executive at CNPC and PetroChina) also impressed the CCP with his business acumen. He advocated reducing oil production at Daqing to extend the life of the field and thus gain additional time to develop alternate industries in the area. In 1999 Daqing's output fell while profits increased. Three years later, the CCP elected the forty-year-old Su an alternate member of the Sixteenth Central Committee.[66]

As already mentioned, some oil executives are competitive candidates for high political positions because of their experience in both industry and provincial government. Although the provinces are the primary channel for elite recruitment, very few provincial leaders have worked for China's flagship enterprises. In contrast, senior managers from China's NOCs—including Zhou Yongkang (Sichuan party secretary), Jiang Jiemin (Qinghai vice governor), former Sinopec and Sinopec Corp. executive Chen Tonghai (Ningbo mayor), and others in table 7-3—have had local and provincial experience. One provincial leader who moved to an NOC is Yunnan vice governor Li Xinhua, whom SASAC appointed deputy general manager of CNPC in 2007, perhaps because of his experience in the natural gas industry.[67]

If the government's increased concern about energy security is any indication, the energy expertise of NOC executives may well have opened the door to some provincial leadership positions. Some analysts maintain that one reason the Organization Department appointed Wei Liucheng governor of Hainan Province is Beijing's plan to develop oil and gas resources in the South China Sea.[68] Similarly, one factor behind Zhou Yongkang's appointment as party secretary of natural gas–rich Sichuan Province may have been his oil industry credentials.

Rising stars to watch at the Seventeenth Party Congress and beyond are Zhou Yongkang, Su Shulin, Wang Tianpu, Wang Anshun, and Jiang Jiemin. Zhou, with his ministerial posts, provincial experience, and Zeng Qinghong as patron, is poised for promotion to the Politburo Standing Committee.[69] Zhang Gaoli and Wang Anshun are also likely to advance. Zhang is currently the party secretary of Tianjin, a post that has often been a stepping-stone to a seat on the Politburo.[70] Wang, who recently became the deputy party secretary of Beijing after serving as deputy party secretary of Shanghai and director general of the CCP Organization Department in Gansu, is only forty-nine and well positioned for future promotions. Su and Wang Tianpu may also have bright political futures because of their youth (both turned forty-five in 2007) and their alternate memberships in the Sixteenth Central Committee. Jiang, the current general manager of CNPC and chairman of PetroChina, is a capable and innovative executive whose managerial skills might help him advance, provided he remains sensitive to party-state concerns.[71]

## Conclusion

China's NOCs are a traditional interest group with a new role in policymaking and politics supported by marketization and globalization. These forces have heightened the divergence between corporate and national interests and increased the competitiveness of oil executives for national leadership positions. These developments are helping to pluralize the policymaking process and diversify the channels of political elite recruitment.

Indeed, policymaking overall has been moving toward greater pluralization over the past decade, as reflected in the expansion of the number of parties at the bargaining table (see chapter 8) and increased strength of traditionally influential industries. As a result, more voices are being heard, but that means decisionmaking is becoming more contentious and protracted. China's top leaders are not only less able to bend the NOCs to their will but must also balance the companies' demands with those of an increasing number of other interest groups. Furthermore, the NOCs regularly vie for markets and projects and hence rarely function as a coherent unit, leaving the government to devote more resources to managing their competition.

China's leadership faces some of its greatest new challenges in the energy sector partly because the projects pursued by the energy SOEs tend to shape the country's energy policies rather than vice versa. With the energy SOEs—especially the NOCs—becoming more dominant in this regard, the idea of creating another MOE has gained momentum; proponents maintain that simply having a government agency equal in rank to the energy companies will help ensure that other interests, such as environmental protection, are given equal weight in policy debates.[72] In short, the growing relative power of the NOCs and other SOEs may be a catalyst for further pluralization of the policymaking process.

Likewise, the continued advancement of senior managers from the NOCs —and other flagship firms—to national leadership positions may help to diffuse the channels of elite recruitment. The election of business leaders to the Sixteenth Central Committee suggests that large firms have begun to translate their economic might into political power. The experience of Taiwan's Kuomintang (KMT) Party with incorporating business groups into politics (see chapter 16) provides a model for how this process might unfold on the mainland. Just as in Taiwan, the contributions of China's flagship firms to the government's efforts to create globally competitive firms and to fill its coffers may prompt the CCP to promote more business elites to the national leadership. NOC executives are likely to be part of any such expansion because of their companies' international experience, economic clout, and role in supplying China with a strategic commodity.

## Notes

1. For more on the petroleum faction, see Richard Baum, *Burying Mao: Chinese Politics in the Age of Deng Xiaoping* (Princeton University Press, 1994), pp. 54–56, 104–05; David M. Lampton, *Paths to Power: Elite Mobility in Contemporary China* (University of Michigan Press, 1989), pp. 150–99; and Kenneth Lieberthal and Michel Oksenberg, *Policy Making in China: Leaders, Structures and Processes* (Princeton University Press, 1988), pp. 46–47, 60–61, 252–54.

2. This chapter treats China's NOCs as a single interest group in order to explain the changing relationship between the oil industry as a whole and the party-state. However, the NOCs do not always function as a coherent unit. They have distinct interests and compete for projects and for market share.

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4. "Top 50 Rankings Based on Six Operational Criteria," *Petroleum Intelligence Weekly*, Supplement, December 18, 2006.

5. Ibid.

6. Susan Shirk, *The Political Logic of Economic Reform in China* (University of California Press, 1993), p. 94.

7. Barry Naughton, "Claiming Profit for the State: SASAC and the Capital Management Budget," *China Leadership Monitor*, no. 18 (Spring 2006), p. 3. In May 2007, the Chinese government decided to have state-owned enterprises begin paying dividends. See Barry Naughton, "Strengthening the Center and Premier Wen Jiabao," *China Leadership Monitor*, no. 21 (Summer 2007), pp. 1–3.

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14. Interview with industry insiders, Beijing, China, April 6, 2006, and April 20, 2007; and Richard McGregor and James Kynge, "CNPC under Pressure to Sack Leader after Gas Leak," *Financial Times*, January 15, 2004.

15. "Decision of the State Council on Reform of the Investment System," State Council Document 20, July 16, 2004 (www.ndrc.gov.cn/policyrelease/t20060207_58851.htm [April 2, 2007]).

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17. Interviews with industry insiders, Beijing, April 11, 2006, and March 13, 2003.

18. Telephone interview, March 30, 2007.

19. "Zhongshiyou wei shenme gan 'zuo gei lianghui kan'?" (Why did CNPC make a gesture of deference to the Two Sessions?), Xinhua News Agency, March 12, 2007 (news.xinhuanet.com/legal/2007-03/12/content_5833290.htm [May 15, 2007]); and "Zhengxieweiyuan fansi qunian 'youhuang'" (A CPPCC member reflects on last year's "oil shortage"), *Jinghua shibao* (Beijing Times), March 13, 2007, p. A4.

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24. *BP Statistical Review of World Energy 2007* (London: British Petroleum, June 2007), p. 16.

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27. See note 25.

28. See note 25; and NBS, *China Statistical Yearbook 2006*, p. 282.

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33. Tong Xiaoguang, "Shishi 'zou chu qu' zhanlue chongfen liyong guowai youqi ziyuan" [Implement the "going out" strategy to fully utilize oil and gas resources abroad], *Guotu*

*ziyuan* [Land and resources] no. 2 (2004), p. 7 (China Academic Journals, Tsinghua Tongfan Optical Disc Co./Eastview Publications); and James Irwin, "China: Beijing Dictates Expansion," *Energy Compass*, January 22, 2004.

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70. I thank Cheng Li for this point.

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