Business and Politics in China

The Oil Executive Reshuffle of 2011

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During the first week of April 2011, the Chinese Communist Party (CCP) reshuffled top executives of China's three major national oil companies (NOCs): China National Offshore Oil Corporation (CNOOC), China National Petroleum Corporation (CNPC) and China Petrochemical Corporation (Sinopec). On April 2, the CCP announced that Su Shulin, the former party secretary and general manager of Sinopec, would become the deputy party secretary and acting governor of Fujian Province.[1] On April 8, the CCP revealed that Fu Chengyu, the former party secretary and general manager of CNOOC, would become chairman and party secretary of Sinopec.[2] The CCP also announced that Wang Yilin, a deputy general manager of (and the number three official at) CNPC would become chairman and party secretary of CNOOC.[3]

The oil executive reshuffle was a blatant reminder of the CCP's control over China's flagship firms. Unlike the CEOs of companies like ExxonMobil and Shell, the leaders of China's NOCs are not selected by their boards of directors, outgoing CEOs and other senior managers. Instead, they are nominated by the Organization Department, the secretive human resources division of the CCP, and ultimately approved by the Politburo.

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China's Oil Executive Reshuffle

Name	*Previous Positions*	*Current Positions*
Su Shulin	General Manager, Sinopec Party Secretary, Sinopec Chairman, Sinopec Corp.	Governor, Fujian Province Deputy Party Secretary, Fujian Province
Fu Chengyu	General Manager, CNOOC Party Secretary, CNOOC Chairman, CNOOC Ltd.	Chairman, Sinopec Party Secretary, Sinopec Chairman of the Board of Directors, Sinopec Corp.
Wang Yilin	Deputy General Manager, CNPC Party Committee Member, CNPC Non-executive director, PetroChina	Chairman, CNOOC Party Secretary, CNOOC Chairman of the Board of Directors, CNOOC Ltd.

What is less obvious is why the CCP reshuffled China's oil executives. The Organization Department's personnel appointments are fundamental to the entire political system in China because they extend to every state entity. However, outside observers have very little information about how the Organization Department makes its decisions, which are deliberated behind the closed doors of its unmarked office building in Beijing. Although officials from the department occasionally offer some insight in interviews with the Chinese media, they do not provide a full account of why particular decisions were made. Consequently, we must infer motives from careful analysis of specific cases. The personnel changes at China's NOCs are an ideal case study because they shed light on the complex ties between wealthy and powerful state-owned corporations and the party-state.

This essay examines four hypotheses about why the CCP appointed Su, Fu and Wang to new positions. The hypotheses are: patronage; the revolving door between government and business in China; improving corporate governance; and lastly, managing competition between the NOCs. Our main finding is that patronage and the revolving door between government and business best explain Su's move to Fujian Province, while improving corporate governance and managing competition best explain the moves of Fu and Wang.

The oil executive reshuffle also provides some insight into the complex relationship between the CCP, the central government and the NOCs. On the one hand, Su's promotion to governor and deputy party secretary of Fujian Province is the latest example of the oil industry's longstanding political clout in the Chinese economic and political system more broadly as Su is expected to rise further within the Chinese bureaucracy. Patron-client ties between political elites from the oil industry and the increasing attractiveness of executives of China's flagship firms to the CCP as candidates for national leadership positions also explain Su's career trajectory (and those of other industry executives). On the other hand, the personnel changes at China's NOCs also reflect the efforts of the CCP and the Chinese government to curb the power of the "number one boss" (*diyi bashou*) at China's NOCs by limiting the number of positions the top executive concurrently holds, to level the playing field between the three NOCs, and to improve corporate governance at these companies.

The Relationship Between China's NOCs, the Government and the CCP

The casual observer of China's oil industry might easily think that the ultimate authority over China's state-owned oil companies is the Chinese state. Ownership, however, does not always equal control, and this is true for China's NOCs. The companies' political power, financial clout and technical expertise provide them with considerable influence over energy projects and policies in China.[4] Not only do the NOCs and their CEOs have higher bureaucratic ranks than some of the government and official bodies responsible for the energy sector,[5] the NOCs are also some of the most profitable state-owned enterprises (SOEs) in China.[6] Moreover, the NOCs have the expertise required to discover, develop, produce and transport the oil and natural gas China needs to help fuel its continued economic rise. Finally, the combination of technical knowhow and a unique position within the political system gives the NOCs a strong say in policy debates and in the subsequent policy choices.

SASAC has begun to exert more influence over centrally-administered enterprises in recent years.

The institution that represents the Chinese government as the owner of China's NOCs is the State-owned Assets Supervision and Administration Commission (SASAC).[7] SASAC owns a major stake in the 121 large—and increasingly wealthy and powerful—firms it administers (known as *yangqi* in Chinese). SASAC originally was a relatively passive owner, neither harvesting its firms' profits nor selecting their top leaders. However, SASAC has begun to exert more influence over the *yangqi* in recent years. SASAC not only began to collect dividends in late 2007, but it has also linked the salaries of senior executives to the performance of their companies.[8] More recently, SASAC issued new regulations on outbound investments by the *yangqi*, aimed at strengthening the security of state-owned assets abroad, in response to mounting economic losses in overseas ventures.[9]

Despite SASAC's increased activism, its authority over the NOCs is eclipsed by that of the CCP, which retains the power to appoint the top executives at CNOOC, CNPC and Sinopec. These personnel decisions are made by the Organization Department, which Richard McGregor, a former China bureau chief of the Financial Times, has described as "the largest and most powerful human resources body in the world."[10] It is the gatekeeper that all individuals must pass en route to senior positions in government, business, academia and the media.[11] The department's selections are then ratified by the Politburo and implemented by the Ministry of Personnel, which functions largely as an arm of the Organization Department, with many of its officials concurrently occupying positions in the department.

How to Explain the Moves?

The opacity of the Organization Department's decision-making has prompted much speculation about the motivations behind the recent reshuffling of oil executives at CNOOC, CNPC and Sinopec. In this section, we examine four hypotheses about why these moves were made. Our analysis is primarily based on Chinese and international media reports, interviews with oil industry analysts in China and the literature on the relationship between business and politics in China. Taken together, the four hypotheses help explain the personnel changes at the top of China's NOCs.

Hypothesis 1: The oil executive reshuffle occurred because a top leader promoted one of his clients.

Patronage ties between oil executives and senior leaders who spent portions of their careers in the oil industry are probably one factor behind the oil executive reshuffle. Su Shulin, Wang Yilin and Fu Chengyu all have links to either Zhou Yongkang, a member of the Politburo Standing Committee since 2007, or Zeng Qinghong, who retired from the Politburo Standing Committee in 2007 but remains influential behind the scenes. Both Zhou and Zeng likely have strong influence over personnel appointments in the oil sector.[12]

Patron-client relations between political elites from the oil industry have persisted throughout the history of the People's Republic of China. For example, Yu Qiuli, who rose from Minister of Petroleum Industry (1958-1964), to become a vice premier (1975-1982), member of the Politburo (1976-1987) and deputy secretary general of the Central Military Commission (1982-1987), accelerated the political career of his secretary, Zeng Qinghong. Yu helped Zeng obtain a series of successively higher positions in China's oil industry (1982-1984). Zeng helped Zhou Yongkang, whom he first met on an inspection tour of the Liaohe Oilfield in the early 1980s, secure appointments as minister of land resources (1998), Sichuan party secretary (1999), minister of public security (2002), member of the Politburo and Secretariat of the Sixteenth Central Committee (2002), and member of the Politburo Standing Committee and Chairman of the Politics and Law Commission of the Seventeenth Central Committee.[13]

Fu Chengyu, Su Shulin and Wang Yilin's careers in the oil industry overlapped with those of Zeng Qinghong and Zhou Yongkang. Fu reportedly worked as Zeng's assistant at CNOOC in the early 1980s, and Zeng reportedly helped Fu climb the corporate ladder at CNOOC.[14] Su, Wang and Zhou, whose careers in the oil industry span decades, all worked at CNPC in the 1990s, albeit in different parts of the company.

Zhou not only spent more than 30 years working in the oil industry, including serving as the general manager of CNPC (1996-1998), he also has a role in ratifying the individuals tapped by the Organization Department to fill specific positions by virtue of his seat on the Politburo Standing Committee. Zeng spent several years in the oil patch and also served as the director of the Organization Department (1999-

2002) and the executive secretary of the Secretariat (2002-2007), making him the number two person in charge of managing the party apparatus behind Hu Jintao.[15]

However, neither Zhou nor Zeng can play kingmaker. Other members of the Politburo Standing Committee undoubtedly also have a say. They include Hu Jintao (because he is the general secretary of the CCP), Wen Jiabao (because of his responsibility for economic affairs and the State Council), Li Keqiang (because of his responsibility for economic affairs), and He Guoqiang (because of his experience in the oil industry).[16]

It is worth noting that the oil executive with arguably the closest ties to Zhou Yongkang, current CNPC general manager Jiang Jiemin, was not part of the recent oil executive reshuffle. Jiang has been identified as protégé of Zhou. According to one industry insider, a "rule of thumb" is that anyone above the director level at CNPC who worked at the Shengli oil field, where Zhou spent the early part of his career in the oil industry, was promoted within CNPC by Zhou, including Jiang.[17]

Hypothesis 2: The oil executive reshuffle occurred because the CCP is vetting business executives for national leadership positions.

Su Shulin's appointment as party secretary and acting governor of Fujian Province is part of the revolving door between business and government in China. Senior executives at China's *yangqi* are a talent pool for the CCP. These business leaders are valued by the CCP for their managerial prowess, understanding of economics and experience operating in the global economy. Executives who do a good job balancing their corporate objectives with the priorities of the CCP are attractive candidates for promotion to provincial and national leadership positions.

China's *yangqi* are a small but growing channel for elite recruitment.[18] One indicator that executives are becoming a source of leaders for the CCP is their emergence as a distinct component of CCP Central Committees, whose memberships are dominated by leaders from the provinces, central government ministries and the military. In 2002, 17 corporate leaders were elected to the 356-member Sixteenth Central Committee, two as full members and 15 as alternates. In 2007, 22 corporate leaders were elected to the 371-member Seventeenth Central Committee, one as a full member and 21 as alternates. Although executives constitute a small percentage of the Central Committee, their inclusion indicates the CCP recognizes that the skills they developed in business are transferrable to government.

The marketization and internationalization of the Chinese economy has created a demand for political elites with experience operating in the global economy.[19] Managers from China's flagship firms, which have subsidiaries listed on international stock exchanges, operations spanning the globe, and partnerships with foreign companies, fill this need. Indeed, the CCP has even established a school directly under the Organization Department to train executives from the *yangqi* and the financial industry.[20]

Executives who successfully balance pursuing their corporate agendas with advancing—or at least not undermining—the priorities of the CCP have been promoted to provincial and national leadership positions (see table below). One prominent recent example of an executive who became a government minister is Xiao Yaqing, who was the general manager of China Aluminum Group (Chinalco) before his promotion to deputy secretary-general of the State Council. The secret of Xiao's success was his ability to simultaneously promote corporate and national interests. In 2008, Xiao engineered Chinalco's purchase of a 9 percent stake in the Anglo-Australian mining company Rio Tinto, derailing a proposed takeover of Rio Tinto by BHP Billiton. Had the merger occurred, the new firm would have controlled one-third of the global iron ore market. This acquisition not only furthered Xiao's objective of transforming Chinalco into a diversified global mining company, it also addressed the Chinese leadership's concern that a merger between Rio Tinto and BHP Billiton would have resulted in higher prices for iron ore, a commodity critical to China's economic growth.[21]

Examples of CEOs Promoted to Provincial Leadership Positions

Name	*Business Position*	*Government Position*
Li Xiaopeng	General Manager, China Huaneng Group	Party Secretary and Governor (2010-), Shanxi Province
Wei Liucheng	General Manager, China National Offshore Oil Corporation	Party Secretary (2007-2011) and Governor (2004-2007), Hainan Province
Guo Shengkun	General Manager, Aluminum Corporation of China	Party Secretary (2007-), Guangxi Zhuang Autonomous Region
Zhu Yanfeng	General Manager, China FAW Group Corporation	Vice Governor (2007-), Jilin Province

Su Shulin's move to Fujian Province is largely explained as part of the broader trend of executives entering the political elite. First, Su's new position further solidifies his role as one of China's rising political stars. He is now one of seven officials born in the 1960s to achieve full-ministerial rank.[22]

Second, Su's promotion is consistent with the CCP's practice of vetting promising candidates for leadership positions by rotating them through positions in different parts of the country and different administrative units to assess their performance in a variety of settings.[23] The provinces are the primary channel for elite recruitment in China, and numerous CEOs have occupied provincial party and government posts en route to high-ranking positions in the central government. Su worked in the oil industry for more than 20 years before he briefly served as head of the Organization Department in Liaoning Province in 2006-2007. His tenure was cut short when Chen Tonghai resigned as general manager of Sinopec in July 2007 due to corruption charges, and Su was called back to Beijing to replace him.[24] The Organization Department reportedly tapped Su to clean up Sinopec because of his "solid political foundation" and "good sense of the overall good."[25]

Officials Born in the 1960s with Full Ministerial Rank

Name	*Birth Year*	*Current Position*
Su Shulin	1962	Deputy Party Secretary and Governor, Fujian Province
Zhou Qiang	1960	Party Secretary and People's Congress Chairman, Hunan Province
Nuer Bekri	1961	Deputy Party Secretary and Chairman, Xinjiang Uighur Autonomous Region
Hu Chunhua	1963	Party Secretary and People's Congress Chairman, Inner Mongolia Autonomous Region
Sun Zhengcai	1963	Party Secretary and People's Congress Chairman, Jilin Province
Lu Hao	1967	First Secretary, Communist Youth League
Zhang Qingwei	1961	Deputy Party Secretary and Acting Governor, Hebei Province

Third, Su's management experience and knowledge of economic affairs appear to have been a factor in his appointment to Fujian Province. The two decades he spent in senior management positions at both CNPC and Sinopec, two of China's most profitable *yangqi*, which ranked 7th and 10th, respectively, on the 2010 Fortune Global 500, attest to the emphasis the CCP lays on both executive and political skills. Indeed, at the time of his move to Fujian, a senior official from the Organization Department acknowledged Su's long career in China's oil industry, familiarity with modern enterprise management and operation and his strong organizational and leadership skills.[26]

One initiative undertaken by Su while he was at CNPC that apparently impressed the CCP was his controversial move in the late 1990s to cut oil production at Daqing to prolong the life of the field and buy time to develop other industries.[27] His decision subsequently proved effective, and contributed to his promotion to vice-president of CNPC in 2000. Two years later, Su was the youngest person elected an alternate member of the Sixteenth Central Committee at age 40.

There are, however, several blemishes on Su's record as a manager. In 2002, when Su was general manager of the Daqing Oilfield Company, he failed to quell protests by laid-off workers demanding better severance packages, which were ultimately suppressed by a paramilitary operation.[28] More recently, Sinopec delivered a lackluster performance in 2010, which included declines in reserves and a downgrade in estimated production growth for 2011-2015.[29] Moreover, less than two weeks after Su's departure from Sinopec, receipts indicating that officials at Sinopec's Guangdong branch had purchased $250,000 worth of liquor with company cash appeared on the internet. The "astronomically priced liquor incident" ignited public anger toward Sinopec at a time of rising oil prices.[30] These blemishes suggest that other factors besides Su's track record as a *yangqi* executive also help explain his appointment to Fujian.

The case of Fu Chengyu, however, illustrates that good management skills alone are not sufficient for promotion into the political elite nor do patronage ties guarantee a move into higher political office. Fu is widely regarded inside and outside of China as having done a stellar job at the helm of CNOOC. In addition, CNOOC also greatly outperformed Sinopec in 2010. However, Sinopec is likely Fu's swan song. He is already 60 years old, the retirement age for vice-ministers, and his role as company chairman will only extend his time at Sinopec by three years.[31] His move to Sinopec therefore suggests that there were additional, corporate goals behind the recent executive shuffle, which are discussed in hypotheses three and four.

Hypothesis 3: The oil executive reshuffle is part of the party-state's bid to improve corporate governance in centrally-administered enterprises.

The oil executive reshuffle is also part of the Chinese party-state's efforts to improve corporate governance. This objective has been largely ignored in many Western analyses of the oil boss switch, which have cited it as an example of the Party's disregard of corporate governance. First, the executive reshuffle created a potential conflict of interests because as the executives were changing jobs at the parent company level, they kept their old positions in the listed subsidiaries.[32] Second, the moves violate several listing rules—most significantly that directors should not engage in business in direct competition with their firms; that a company should make public significant changes in the jobs of its directors and that a company should disclose price sensitive information.[33] More broadly, the move was deemed to be yet another instance of the party's absolute control over its corporate interests.[34]

However, the Organization Department's reshuffle of China's oil executives dovetails with the government's attempt to reassert control over its corporate assets and advance SASAC's goals for reforming the *yangqi*. This reflects the government's concern about the disproportionate power that the *yangqi* have in the system and the NOC's ability to disregard the CCP's goals in pursuit of their corporate interests. In this context then, the oil boss switch is seen by many Chinese analysts, on the contrary, as a step towards better corporate governance and a reflection of the rising power of SASAC.

SASAC has set out a number of related goals for the *yangqi* under its guidance. One goal is to fight corruption. A second objective is to curb the power of the "number one boss" to prevent corporate leaders from becoming too independent and accumulating power in corporate fiefdoms.[35] A third goal is to establish independent boards that will promote the profitability and operational efficiency of the *yangqi*.[36]

Fighting Corruption

Corruption has long been one of the most severe challenges not only to corporate governance but also to the CCP's political legitimacy.[37] The severity of the phenomenon was highlighted most recently during the CCP's 90th anniversary following a string of high level corruption cases, including ministers and top corporate bosses: Liu Zhijin, China's railway minister; Huang Guangyu, the founder of home appliance retailer GOME; Kang Rixin, former head of the China National Nuclear Corporation, and Chen Tonghai, former Sinopec boss.[38] According to China's central bank, corrupt Chinese officials smuggled an estimated 800 billion RMB ($123.6 billion) out of the country over a 15-year period.[39] Finally, public frustration with rampant corruption combined with an increasing distrust of the *yangqi* is also of concern to the government as the *yangqi*'s large revenues and higher incomes—indications of their monopoly privileges—are subject to criticism in the Chinese media.[40]

Corruption is one of the most severe challenges to corporate governance and the party's political legitimacy.

The case that has become SASAC's poster child for the fight against corruption in China's *yangqi* is that of former Sinopec boss Chen Tonghai. The son of Chen Weida (who was party secretary of Tianjin from 1978 to 1984 and deputy head of the Central Committee of Politics and Law from 1984 to 1988), Chen was considered to be a rising star in China's oil and gas sector. Despite his notoriously lavish tastes and high personal expense bills, he was a young and successful manager at Sinopec, a staunch advocate of pricing reforms in the oil sector and a promising leader slated for promotion to SASAC or the national energy bureaucracy.[41] Yet his political fortunes waned when he was plucked out of Sinopec on corruption charges in June 2007.[42]

For Li Rongrong, then head of SASAC, the Chen Tonghai case was representative of the perils of the "number one boss" culture at the *yangqi*, highlighting the lack of adequate power over the oil industry and the flawed corporate governance structure.[43] Li Rongrong used it to further press for the *yangqi* to establish boards of directors at the holding company level, an initiative begun in 2004.[44] The pilot program was tested in a number of the *yangqi*. Although resistance has been high in the oil sector, the current round of personnel shuffles ahead of the top leadership change in 2012 meant that the time was ripe not only for new leadership at the head of Sinopec, but also to move forward with SASAC's reform program in all three NOCs.[45]

Indeed, SASAC's ability to shore up support from the CCP's Organization Department in pursuit of its reform goals seems to be increasing. For example, Wang Yong, who took over SASAC from Li Rongrong in August 2010 has extensive experience dealing with the *yangqi* from his tenure at the 5th bureau of the

Organization Department, where he oversaw appointments to the *yangqi*.[46] Wang Yong's party credentials, through his tenures at both the party's corruption watchdog and the Organization Department, strengthen his ability to gain the Party's support for moving ahead with SASAC's corporate governance reforms. While the Party's reluctance to surrender control over its corporate interests has represented a significant obstacle to corporate governance reforms, Wang Yong's personal connections and experience probably allow him to reconcile CCP and SASAC objectives.[47] Second, SASAC's reform plan clearly supports China's goals for its Twelfth Five-Year Plan (FYP) for 2011-2015.

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Indeed, as Beijing introduces its new FYP and looks to restructure its economy, the government aims to redistribute wealth from its corporate entities to households. Part of the reform includes increasing dividend payments from SOEs that would then be channeled into social welfare funds, thereby alleviating some of the burden that local governments bear.[48] Achieving these goals will require stronger government oversight, and better bookkeeping in the companies, which in turn is lending ballast to SASAC's goals.

Curbing the power of the "number one boss"

The oil executive reshuffle is also part of SASAC's efforts to curb the power of the "number one boss" of the *yangqi* by, first and foremost, preventing them from staying in one company for too long and breaking up their fiefdoms.[49] A longer-term and more ambitious goal is to introduce a system of internal checks and balances within the company leadership by creating a board of directors in the holding companies and separating the roles of chairman and general manager.

The board of directors pilot program dates back to 2004 and aims to set up boards in the holding companies of the *yangqi*, gradually staff them with external managers and entrust them with greater authority for personnel, financial decisions and strategic orientation. The goal is to allow SASAC greater scrutiny of the "middle layer" between SASAC and the listed firm.[50] The program was kicked off with Baoshan Steel Company, in which the board of directors oversees the entire firm (including its holding company). The company then added two independent directors to its board, including one from Hong Kong and one from Singapore in 2006.[51] By 2010, 30 *yangqi* had set up boards of directors.[52] However, the pace of reform may have been slower than anticipated since SASAC aimed for 30 *yangqi* by 2008.[53]

The Organization Department and the State Council support SASAC's goal of establishing boards of directors for CNOOC and Sinopec, distinct from the boards of directors of their internationally-listed subsidiaries, CNOOC Ltd. and Sinopec Corp.[54] Indeed, on the day of Fu's nomination to head Sinopec, Wang Erchan, vice minister of the Organization Department, announced that Sinopec would establish a board of directors and separate the posts of chairman and president.[55] According to Wang, "this is the necessary requirement when the reform of a state-owned enterprise reaches a certain stage. After the board of directors is established, it will need to stick to the principle of democratic centrism. Major investment projects, major reform measures and the appointment and dismissal of important cadres will follow the principle of collective study and decision-making."[56]

Consequently, Sinopec and CNOOC established boards of directors and CNPC followed suit in November.[57] At each company, the top three positions are held by different individuals. Fu Chengyu, Wang Yilin and Jiang Jiemin hold the posts of chairman of the board and party secretary at Sinopec, CNOOC and CNPC, respectively. The position of general manager is held by Wang Tianpu at Sinopec, Yang Hua at CNOOC and Zhou Jiping at CNPC (even though the English translation of Yang Hua's position at CNOOC is President, the Chinese term, *zongjingli*, is the same as his peers).

This new division of labor among the top executives reflects the party-state's objective of creating an internal checks-and-balances system by having different individuals occupy different leadership positions. Prior to the establishment of the boards of directors at China's NOCs, the general manager wielded enormous decision-making power because he also served as party secretary. However, under the new leadership structure, it is the chairman of the board that concurrently holds the post of party secretary. The purpose of having the chairman of the board also serve as party secretary is intended to increase the authority of the board vis-à-vis the general manager.[58]

A separation of roles at the parent-level companies of China's NOCs began in August 2010 when Fu Chengyu stepped down as chief executive of CNOOC Ltd. Yang Hua, who was previously president and chief financial officer of CNOOC Ltd., stepped in to replace him.[59] Fu, however, retained his positions as general manager and party secretary of CNOOC and chairman of the board of CNOOC Ltd.

The establishment of boards of directors at Sinopec and CNOOC is an initial step towards SASAC's goal of more transparent and independent boards of directors with greater authority for managerial appointments and compensation. In some of the *yanqgi*, where the boards of directors are already well established, SASAC is contemplating transferring its decision-making powers to the board. But that is unlikely to happen in the NOCs anytime soon. For one, the entrenched interests in the oil sector run deep and resistance to the reform is staunch.[60] Significantly, the lack of scrutiny over the parent company allows the NOCs to shield unprofitable assets and minimize their impact on the productive assets, which are in the listed company.[61] What is more, while the CCP may acknowledge the need for more transparency in its *yangqi*, it remains reluctant to cede control over its strategic assets.[62] As the saying goes, the "three old" sources of power (the Party Committee, the employees representative Committee and the union) are resisting change from the "three new" (board of directors, the supervision committee, and the shareholders committee) powers that SASAC is trying to promote.[63]

For now, Fu, Wang and Jiang are the most important decision makers in these firms since they hold the position of party secretary and chairman. According to an anonymous source at SASAC, the hope is that the creation of a more professional board will help boost the *yangqi*'s profitability and performance by overseeing financial decisions and minimizing risk since the size and risk profile of the NOC's financial investments and overseas activities is increasing substantially.[64]

Hypothesis 4: The oil executive reshuffle occurred because the CCP intervenes in corporate structures in order to level the playing field in monopoly sectors.

Finally, the oil executive reshuffle is a means to level the playing field in the oil industry. Rotating executives within an industry to manage competition between firms has been a standard practice of the CCP. One of the most prominent examples occurred in late 2004, when the Organization Department reshuffled the executives of China's "big three" telecommunications companies: China Mobile, China Unicom, and China Telecom.[66] One of the motivations may have been to reign in excessive competition between the firms and protect their profitability. According to Edward Tian, then head of China Netcom, a fourth telecom firm, "[t]he competition was very furious. It's like three brothers fighting each other for no clear objective. The parents say: 'Let's change your seats. You will see each other from another angle. You had better behave yourselves from now on.'"[67]

Recent moves in the telecom industry may also shed light on the planned (or hoped) trajectory of the NOCs. In May 2010, the leadership positions at China Mobile were separated with Wang Jianzhou retaining the positions of party secretary and chairman of the board while Li Yue became chief executive of China Mobile. A month later, Xi Guohua, vice-minister of industry and information technology (MIIT) was parachuted into China Mobile to take over the position of party chief from Wang Jianzhou, who will remain chairman until his retirement.[68] Reports suggest that Xi who is already 60—the required retirement age for *yangqi* executives at vice-ministerial level—will be a temporary figure. He is expected to bolster China Mobile politically and give the company a leg up on its two rivals and help smooth over the transition while cleaning up the company.[69]

Similarly, the CCP's reshuffling of China's oil executives may have been partly aimed at enhancing the competitiveness of Sinopec with respect to its domestic peers by appointing Fu Chengyu as the new "number one boss." In 2010, Sinopec's internationally-listed subsidiary (Sinopec Corp.) did not perform nearly as well as those of CNOOC (CNOOC Ltd.) and CNPC (PetroChina).[70] Sinopec Corp.'s year-on-year growth net profit was 13.7 percent, far below the 41.5 percent increase posted by PetroChina and the 84.5 percent jump posted by CNOOC Ltd.[71] Sinopec Corp.'s poor performance is primarily due to the fact that it is China's largest refiner and thus the company hardest hit by state-set prices for diesel and gasoline. However, Sinopec Corp. and Sinopec have also struggled more than their domestic peers to maintain oil output at home and to grow production abroad.

Fu Chengyu's track record at CNOOC indicates that he has the skills and experience to help remedy Sinopec's weaknesses. First, Fu presided over a 237 percent increase in CNOOC Ltd.'s net oil and natural gas production increased between 2004 and 2010.[72] Second, Fu's substantial international exposure is likely to bolster Sinopec's efforts to build its global exploration and production portfolio. Fu not only earned a graduate degree at the University of Southern California, but he also worked for Philips Petroleum. Moreover, he spent nearly 30 years at CNOOC, a company created for the explicit purpose of partnering with foreign companies to explore for oil and natural gas in China's offshore waters.

What Does the Reshuffle Tell us about Relations Between the CCP and the NOCs?

In the absence of a full accounting from the Organization Department, we examined four hypotheses about why the oil executive reshuffle occurred: patronage, the revolving door between business and politics, corporate governance reforms and efforts to manage competition among China's three major NOCs. Of these, patronage and the role of major SOEs as a channel for elite recruitment in China best explain why the CCP promoted Su Shulin from general manager and party secretary of Sinopec to acting governor and deputy party secretary of Fujian Province. The party-state's intention to improve corporate governance at China's NOCs sheds some light on why the Organization Department moved Fu Chengyu from CNOOC to Sinopec and Wang Yilin from CNPC to CNOOC. The CCP may also have tapped Fu to lead Sinopec in a bid to enhance Sinopec's competitiveness vis-à-vis its domestic peers.

The multiple motivations behind China's oil executive reshuffle indicate that the relationship between the CCP, the Chinese government and China's NOCs is more complex than it may appear at first glance and that the balance of power within this relationship remains constantly in flux. China's NOCs have considerable influence over the government: their growing financial power combined with their technical knowhow and their political rank allows them to wield considerable power in energy policymaking and tilt the political agenda in their favor. Moreover, the NOCs tend to amalgamate corporate interests with national interests, thereby reinforcing the reason for government support of their agendas. Indeed, many *yangqi* CEOs strive to use their corporate careers as springboards into the national leadership by growing their companies in ways that advance the interests of the party-state and thus building their own personal political capital. As they rise through the ranks of the party-state, they perpetuate the patronage system and, in turn, help cultivate the next generation of political leaders from China's flagship firms.

In this context, some outside observers also viewed the oil boss switch as the latest example of the political clout of China's oil industry. To be sure, Su Shulin's move to Fujian illustrates how the CEOs of China's wealthy and powerful SOEs can use their companies to advance their political careers. But there is little evidence to suggest that Su's promotion—beyond an additional example of the importance of patronage in the Chinese system—will give rise to the birth of a new interest group, or the revival of a petroleum faction in Chinese politics.

At the same time, the NOC's ability to partake in policy making comes at a price: they are bound to the CCP through deeply entrenched structural ties and must therefore remain subject to the CCP's goals. But when the NOCs prioritize corporate objectives over CCP goals—as they have in the past—and are seen to be steeping out of line, the CCP has several levers to rein them in. As revealed by the appointments of Fu to Sinopec and Wang to CNOOC, and the establishment of boards of directors at Sinopec, CNOOC and CNPC, the CCP still has levers to control its corporate giants and is seeking to curb the power of the "number one bosses" of some of China's largest firms even as it seeks to promote some of them to national leadership positions. Indeed, the establishment of boards of directors and the appointment of two different individuals to occupy the positions of chairman of the board/party secretary and general manager does not diminish the CCP's authority over the NOCs because the CCP determines who holds all three posts. In this latest round of tug-of-war between corporate interests and the party-state, the party-state is pulling rank.

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