Chinese Firms in the Belt and Road Initiative

Building a Passive Revolution

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Thomas Olivier Janssen

Abstract

The Belt and Road Initiative is in crisis because many participants are worried about dept trap diplomacy and not sharing equally in the benefits. How can it be then that Chinese companies are still receiving the vast majority of Belt and Road construction contracts? This thesis seeks to contribute to an answer to this question. By invoking the concept of passive revolution as a theoretical lens, it argues that the Chinese elite is more likely to favor contract allocation to companies that are more controlled by it, especially in economic sectors that are more important to their interests. Four categories of companies are constructed on a continuum from most to least central Party controlled. Contracts are split among three sectors that are, domestically, tightly regulated ('strategic'), less regulated ('pillar') and least regulated ('normal'). The thesis finds that centrally controlled state-owned enterprises account for over 90% of Chinese-funded Belt and Road construction contracts. The Chinese political elite is found to be even more eager to control the Belt and Road than its domestic economy. Future research will have to take stock of, and further examine, why Chinese state-owned companies feature so prominently in the Belt and Road.

1. Introduction

The Belt and Road Initiative (BRI), the Chinese Party elite's grand project to integrate China with the rest of the world through building hard and soft infrastructure, is in crisis. BRI-related investment and construction declined by 100 billion USD in 2018 relative to 2017 (Molavi, 2019). This decline is arguably symptomatic of the accumulation of concerns since the project was first announce in 2013. Although new countries sign up regularly, April 2019's Belt and Road Forum was overshadowed by concerns over debt trap diplomacy, with several countries declining to attend, allegedly for geopolitical reasons (Kuo, 2019). These concerns are not new and could even be traced back to theories denouncing Chinese involvement in the Indian Ocean region as efforts to acquire nodes of influence: a 'string of pearls' (Brewster, 2017). In the context of the BRI, most Chinese-funded contracts are awarded to Chinese (state-owned) enterprises that employ their own rather than local capacity (Ghossein, Hoekman & Shingal, 2018, p. 6; Zhang & Gutman, 2015, p. 12). This leaves many participating nations with the feeling that they are not benefiting from the project despite China's regular reiteration of their commitment to 'shared and mutual benefits' (Joint Communique, 2019). If the accruing of construction contracts mainly to Chinese (state-owned) enterprises is compromising BRI collaboration by other countries, then why has this not changed yet?

The existing literature that focuses on Chinese firms in the BRI has provided some clues as to an explanation of their prominence. Although the literature on overseas activities of Chinese construction companies is underdeveloped, most commentators on the BRI cite the immense overcapacity in China's construction sector as one of the main motives behind the BRI (e.g. Huang, 2016, p. 321; Ferdinand, 2016, p. 951). This assertion that utilizing overcapacity is at least partially a motive for launching the BRI is, however, a moot point. In Chinese state media the existence of a relation between overcapacity and the BRI is denied (as in China Daily, 2017). Furthermore, proponents of the 'overcapacity thesis' do not base their claims on rigorous research. All research papers mentioning overcapacity seem to simply assume an almost direct causal relationship between overcapacity and the BRI (including Ferdinand, 2016, p. 951; Huang, 2016, p. 321; Chaisse & Matsushita, 2018, p. 169; Wang, 2016, p. 457). This is a reflection of how little research has been devoted to explaining the relation between Chinese firms and the BRI. That BRI contracts that are Chinese-funded are more often awarded to Chinese firms and that these firms often use Chinese capacity even if local capacity exists (Ghossein, Hoekman & Shingal, 2018, p. 6; Saalman & Dethlefsen, 2017) supports the overcapacity thesis, but does not prove it. Heretofore studies have tended to emphasize the *structural* aspects of firm – BRI relations rather than the *agential* aspects. However, regardless of whether the overcapacity thesis is true, any supposed preferential treatment of Chinese firms assumes there is *someone* treating them preferentially.

Information about procurement practices of BRI contracts is scarce, though what is available suggests that procurement of Chinese-funded contracts is similar to Chinese-funded construction projects in Africa; borrowing countries there often receive below-market rate loans if the projects are executed by Chinese companies (Ghossein, Hoekman & Shingal, 2018, p. 6; Zhang & Gutman, 2015, p. 12). In the BRI, over 60% of Chinese-funded construction contracts were granted to Chinese enterprises (Ghossein, Hoekman & Shingal, 2018, p. 6). It seems, then, as if the Chinese government is actively concerned with to whom construction contracts, also in the BRI, are awarded. Any explanation of the prominence of Chinese firms in the BRI must thus incorporate the relation between these firms and the Party-state.

The aim of this thesis is to investigate whether Chinese firms' prominence in the BRI can be explained by their relation to the Party-state in China's domestic political economy. From a theoretical perspective based on the Gramscian concept of the passive revolution, this involves inquiring which companies are of greater interest to the Party than others. I construct four categories that indicate ascending Party interest: private enterprises, non-central state-owned enterprises (SOEs), SOEs managed by the State-owned Assets Supervision and Administration Commission of the Central Committee (SASACSC), and central SOEs whose top executives are directly appointed by the Party. Closeness to the central Party management serves as a proxy for Party interest in a specific company. The objection that the Party cannot fully control companies, not even SOEs (Jones & Zou, 2017; Milhaupt & Zheng, 2015), does not apply here: these mechanisms signify Party *intention* to control. Similarly, I investigate which sectors of China's domestic economy are more closely managed by the Party-state than others. Again, stricter regulation implies a greater willingness of the central Party elite to regulate these sectors. If BRI contracts in these sectors are more often awarded to companies that are closer to the central Party management, then the analysis suggests that the dominant role of Chinese firms in the BRI serves some kind of Party interest and their involvement is therefore a central tenet of the BRI. Consequently, this thesis' inquiry is guided by the following main research question:

Are companies that are closer to the central Party management awarded more Belt and Road-related construction contracts, especially in sectors that are domestically more tightly regulated by the Party-state?

The results provide a mixed image. As regards companies, state-owned enterprises are found account for over 90% of construction contracts and are therefore highly prominent. The most favored category of SOEs is, however, not Party-administered but SASACSC-administered. Private firms and local SOEs receive very little construction contracts. As regards sectors, SASACSC SOEs are

most prominent in all categories. Party-administered SOEs remarkably receive their highest share of contracts in sectors that are found to be least regulated. Private enterprises receive most of their contracts in 'pillar' sectors that are somewhat regulated. These findings precipitate that the Chinese state class is even more eager to control the BRI than its domestic economy. Future research to the BRI will have to take stock of this dominance of SOEs and should focus on explaining why some SOEs receive more contracts than others. For example, four SOEs together receive 47% of BRI construction contracts.

This thesis is structured as follows. Chapter 2 conceptualizes the relation between the Chinese Party-state, Chinese firms, and the Belt and Road. Chapter 3 provides details on the employed data and methods. Chapter 4 constructs a four-point scale for determining how close a company is to the Party and investigates which sectors of the domestic Chinese economy are stringently controlled than others. Chapter 5 analyses the allocation of BRI construction contracts to different categories of companies in general and within sectors that are, domestically, more and less controlled by the Party-state. The thesis concludes with a discussion of the main findings, highlighting implications and opening avenues for further research.

2. Theoretical Framework

This Chapter introduces the theoretical framework that guides this thesis' inquiry. It is divided into three sections. The first section conceptualizes the position of the Communist Party in China's domestic economy with reference to Van der Pijl's distinction between Lockean and Hobbesian states. The second section connects the Chinese Communist Party (CCP) elite to economic modernization and development by invoking the concept of passive revolution. The third section, then, applies this framework to the relation between China's ruling Party, firms, and the Belt and Road.

2.1 China as a Hobbesian Contender State

On the scale of the global capitalist economy, Van der Pijl (1998) maintains a general distinction between two ideal-types of state-society complexes: those belonging to the 'Lockean heartland' of global capitalism and the 'Hobbesian contenders' endeavoring to resist subordination by the heartland.[1] That those units that interact on a global scale are not termed nations states but rather 'state-society complexes' implies that the state and society, including the economy, are so

[1] Not all territories are captured in this distinction, but those that are not are mainly 'proto-states' that have not yet established the social unity and monopoly of coercive force necessary to interact as a whole with the global order (Van der Pijl, 1997, p. 121; Cox, 1987, p. 218).

intertwined that they cannot be understood separately. This idea can be traced back to Antonio Gramsci's use of the state concept, being enlarged to include '*the underpinnings of the political structure in society*' (Cox, 1983: 164). As China is clearly and quite effectively resisting subordination to the liberal West, it can be regarded as the prime current Hobbesian contender (Van der Pijl, 2012). The general model of the Hobbesian contender therefore provides insights into the position of the state elite in China.

In a Hobbesian state-society complex, society is ruled by an elite group that has taken control of the state apparatus (Van der Pijjl, 1998, p. 80). This elite group has not been chosen by the people, but has imposed itself upon society. In order to protect its power, it must rely on coercion and strict control of societal processes; therefore, it is said that this elite group has 'confiscated' society from above (Van der Pijl, 1998, p. 80). Through its exercise of power through the state, this group constitutes itself as the prime social class in the Hobbesian society: the state class (ibid.). This class has, in addition to coercion, another important mechanism for ensuring the acquiescence of the general population in its rule: providing socio-economic development (Amineh, 1998). In addition to maintaining its own position in power, the other main objective of the state class is resisting the imperialist tendencies of the Lockean heartland (ibid.; see below). These two aims are dialectically interrelated. On the one hand, successful resisting of subordination can legitimize the state class's dominance to the population. For instance, the CCP's isolationist policies of the 1950's were received very well by the Chinese people because of their experience with Western aggression since the mid-19th century Opium Wars (Naughton, 2007, p. 50). The condition for resistance on the other hand, that is, as we will see shortly, taking up the 'weapons' of the liberal West, places the ruling elite in a precarious position that might eventually undermine its grip on power. How this mechanism operates will become clear from a discussion of Gramsci's concept of a passive revolution.

2.2 Passive Revolution: Savior and Bane of the State Class

After the original bourgeois revolution, England's Glorious Revolution of 1688, initiated a path of development based on private enterprise employing wage labor, the rest of the world was transformed into a global periphery (Van der Pijl, 1998, pp. 65-68). Peripheral states face the choice between subordination or resistance to the global heartland. Some state-society complexes that, initially, resisted successfully, such as Germany, the United States, and France, all have had to submit to the West in the end and became part of the Lockean heartland (Van der Pijl, 2012). China, as of yet, has not had to surrender. For decades, it has maintained its position by embarking on a similar development trajectory as all previous contenders: a passive revolution (Gray, 2010; Hui, 2017, pp. 72-78).

Amineh (1998) defines passive revolution as '*a long-term social, political, and economic modernization from above*' taking place through '*state intervention in the economy, mobilization of indigenous resources, and the creation of the original capital accumulation from above*' (p. 12). In effect, however, the societal reaction to this modernization is inherent to the process of passive revolution. Because 'modernization' involves importing the alien dynamic of capital accumulation, socio-economic development creates the conditions for a 'molecular advance' of progressive social forces that strive for either further adaptation to the liberal world order or a more radical rejection of it (Van der Pijl, 1997, p. 128; 1998, p. 83; 2012, p. 505). At some point, these progressive elements within the social stratum that is the subject of passive revolution will constitute themselves as a class, initiating a class struggle with the state class (Van der Pijl, 1998, p. 83).[2] When this happens and what the outcome of this struggle will be is contingent on the historical circumstances, with state class organization and the stringency of state control being two crucial determinants (ibid.). The state class is thus in the precarious position where it should allow enough development of private initiative and social forces to resist the imperial tendencies of the West, but at the same time control their autonomy to an extent that prohibits them from posing a threat to the state class itself. How the passive revolution has functioned in China, and what the role of state-owned firms and the Belt and Road is in this process, is the subject of the next Section.

2.3 Passive Revolution in China: From Maoist Isolationism to the Belt and Road

Although the Maoist path to economic development relied on industrialization in isolation of the world economy, Deng introduced the export-oriented growth that served the rest of East Asia so well, relinking China to the rest of the world (Mulvad, 2019, p. 4ff; see also Schwartz, 2010, Ch. 11). The bourgeoisie that had been eliminated by Mao's egalitarianism re-emerged from the ranks of the CCP itself as party cadres spearheaded the creation of private enterprises (So, 2003, pp. 367-368). Progressive elements within the Chinese state class gained momentum and introduced progressively further liberalization of the economy, that is, until the Tiananmen protests of 1989 (McGregor, 2010: Ch. 2). These protests confirmed that the Party overplayed its hand: the social forces engendered by economic development proved too strong to contain without blunt military force (ibid.).

After the Party regained its posture and control over economic development was restored, reforms resumed, especially in the state-owned sectors. As a reaction to the increasingly globalizing world economy and the wish to transition from low-value export production to more profitable sections of global production chains, the 1990's saw the creation of 'national champions' from what used to be

[2] The idea that the economic development initiated by the state class produces the social forces that will eventually cause its downfall has been described as the Hobbesian paradox (Amineh, 1998). From a different theoretical perspective, Huntington (1968) provides a similar analysis of what he terms the 'king's dilemma.'

ministry-level state entities (Brødsgaard, 2012, p. 628). In the process, SOEs gained considerable autonomy *vis-à-vis* the Party-state, and by the end of 1990s, the large SOEs were even decoupled from Party and government organs (Li, 2016, p. 934). Although not without criticism, this strategy paid off: over the past three decades, the centrals SOEs have been transformed from loss-making, bureaucratic giants to (mostly) highly profitable modern enterprises able to compete on the world market (Yu, 2014). Because these reforms necessarily included greater autonomy, profitability has, however, come at a price for the Party: the central SOEs are now found to be pursuing interests that are contrary and even harmful to the Party's (Jones & Zou, 2017). It is therefore unsurprising that regaining control is at the heart of Xi Jinping's SOE reforms (Yu, 2019). In the management of its SOEs, the Party-state is thus constantly seeking a balance between autonomy and control.

This ambiguous attitude to greater SOE autonomy is also reflected in recent theoretical contributions on the relation between the Chinese Party-state and the SOEs. Li argues that there are three modes of Party intervention in the rise of SOEs that each combine a 'constructive/promotional' aspect and a 'restrictive/disciplinary' aspect (2016, p. 942-946). Likewise, Brødsgaard (2012) proposes the notion of 'integrated fragmentation' for the coexistence in Chinese SOEs of managerial autonomy and Party control of top executives through the SASACSC and the *nomenklatura* system. The Hobbesian contender model illuminates the nature of both Li's and Brødsgaard's theoretical contributions: they originate from the tension between the state class's dominant position and the emergence of progressive social forces in the passive revolution. Moreover, from a historical perspective, this blend of central leadership and local autonomy is reminiscent of Mao's philosophy of 'central leadership, decentral management,' entailing a central leadership that defines overall goals but leaving considerable autonomy for bottom-up initiatives (Achterhuis, 1975, p. 114-115; see also Wheelwright & McFarlane, 1970). From the 'corporate trust' experiments of the 1960's, to the *zonggonsi* of the 1980s, the 'grasping the large' reforms of the 1990s, and the national champions of the 2000s (Li, 2016), SOE reform in China has always combined recentralization of authority and decentralization of management. In sum, state-owned enterprises constitute an integral part of the Party's efforts to retain its control over society throughout the passive revolution.

2.3.1 The Belt and Road: Material Capabilities, Ideas, and Institutions

But how does the BRI fit into this passive revolution? Is it an outward continuation of China domestic process of economic modernization? According to Cox (1981), any state-society complex is in its essence a particular, interactive configuration of material capabilities, ideas, and institutions. Based on this insight, the continuities between China's domestic political economy and the BRI should be sought among these three categories. Regarding material capabilities, most commentators agree that the BRI increases resource security, expands China's export markets, and therefore contributes

to its long-term economic development, especially as it is transitioning to a higher value-added and service economy (e.g. Cheng, 2016; Chaisse & Matsushita, 2018; Ferdinand, 2016; Wang, 2016; Huang, 2016). Ideationally, one might argue that the BRI harks back to the Maoist philosophy of central leadership / local management that also formed the basis for SOE reform. While critics of this approach to the BRI say that the BRI lacks central leadership and thus a coherent strategy (Cai & Wong, 2019), instead its loose formulation may serve to enable bottom-up strategy development, with the Chinese Party elite only setting boundaries, ensuring maximum adaptation to local needs. Lastly, institutions, as '*amalgams of ideas and material power*,' stabilize a particular order (Cox, 1981, p. 136). Regarding (state-owned) enterprises as institutions in this sense, the employment of firms in the BRI that are close to the central CCP leadership provides further support for the thesis that the Belt and Road is a continuation of China's domestic passive revolution. Whether this last point is the case is, of course, the subject of this thesis. How this will be researched is the subject of the next Chapter.

3. Data and Methods

This Chapter elaborates on which data and methods are employed in the analysis of BRI construction contracts that follows in Chapter 5. For a more detailed explanation of the categories of companies and sectors that feature here, see the next Chapter on company and sector control by the Party-state.

3.1 Data

Information on BRI construction contracts is derived from the China Global Investment Tracker (CGIT) database (American Enterprise Institute, n.d.). The most recent version of this database contains details on Chinese investment and construction transactions with a value above 100 million USD from January 2005 until December 2018. The variables included in the dataset are: year, month, contractor, contract's worth, share of the contract (if applicable), transaction party (if applicable), sector, subsector (if applicable), country, and region. From the announcement of the BRI onwards, each transaction is categorized as belonging to the BRI or not. When a project can be considered part of the BRI is notoriously unclear; the Chinese government only recently promised betterment on this issue (Bloomberg News, 2019). Regrettably, the coding manual of the CGIT has not been published (D. Scissors, pers. comm., January 16, 2019). I thus have no indication of on what grounds contracts were attributed to specific categories, such as the BRI or sector. This is problematic because conclusions derived from this dataset may not be applicable to other datasets of Belt and Road

contracts. Other databases are, however, not publicly available and therefore I have still opted to use the CGIT.

The dataset was filtered as follows. First, all projects that are not related to the BRI were excluded. Thirty-six contracts that were not fully awarded to a single company were filtered out because this is problematic for assigning ownership information to a contract. Then, because I aim to investigate the *structural* involvement of certain (categories of) companies, those firms with only one construction contract were removed. These steps yielded a list of 45 companies accounting for 720 construction contracts. Of these, three companies comprising ten contracts could not reliably be identified because the information in the dataset was too brief and were therefore left out. A comparison of some dataset statistics before and after filtering is provided in Table 1.

Table 1. Description of the dataset before and after filtering. Only contracts from October 2013 onwards are included, as since this month projects have been assigned to the BRI or not.

	After filtering	**Raw CGIT**
Contracts	710	908
Companies	42	130
Sectors	13	13
Subsectors	20	20

To the remaining contracts that were executed by 42 companies, two variables were added for the analysis: the 'administrator' of the company that executed the contract and to which extent the economic sector that applies to the contract is regulated by the state in China. Information on the regulation of different economic sectors was extracted from the scientific literature and working papers. I contend that this approach of relying on secondary literature is less reliable than if this were derived from official government documents, especially given the Chinese state's notorious vagueness regarding the importance of certain sectors (Yu, 2019). However, as I do not speak Mandarin, relying on scientific literature supplemented by reports is the most feasible manner to access reliable information.

Ownership information was retrieved from Bureau van Dijk's Orbis database, the website of the SASACSC, Bloomberg, Reuters, and the companies' respective websites. I differentiated between three ownership categories: owned by the Central SASAC, owned by a lower level government entity, and privately owned. Companies that were owned by the SASACSC were further checked for whether their top executives were on the Party's central *nomenklatura* list and hence directly appointed by the Party. As these companies are even closer to the central Party management, and hence more important to them, 'Party SOEs' constitute a fourth category. 'Other' is a residual category with only one company, CITIC, that is directly managed by the Ministry of Finance. I termed these categories

'categories of administration' (see next Chapter) because Party SOEs are technically owned by the SASACSC, hence designating the Party as owner would be erroneous. Government ownership was only accorded if a government entity owned a controlling share (> 50%) in the company or a controlling share in a parent company that has a controlling share in the company under consideration. This administrator of the contractor was added as a new variable to each contract in the dataset.

Furthermore, two dummy variables were added to each contract: whether the sector or subsector that is assigned to it is included in either the Party's list of strategic or pillar sectors (see next Chapter for an explanation of these sectors). This was done through comparing the sectors in the dataset with the list of strategic and pillar sectors provided by Yu (2014). A table of all sectors and subsectors in the dataset and whether they are assigned 'strategic,' 'pillar' or neither is provided in Appendix A, Table A1. Although the Party-state's domestic policies that set these sectors apart apply to *companies* in these sectors rather than *projects* in a specific sector by multisector companies, most of the companies in the dataset are so large that their operations are not confined to one specific sector. Therefore, strategic or pillar status is here attributed to *contracts*. Following the general rationale of the thesis, this move is warranted: if the Party sets greater store by specific sectors domestically, then it is also likely that it is more eager to control construction in these sectors in the BRI.

3.2 Methods

I analyze the distribution of BRI construction contracts using descriptive statistics that form the basis for an interpretation based on the theoretical framework outlined above. Although the research design implies the possibility of a multivariate regression analysis as I am in effect examining whether administrator category is significantly correlated with the number of contracts within three different sectors, I have chosen not to do so. For such a quantitative analysis would be a grave simplification of reality. The dataset is rather unclear and the designation of sectors as strategic, pillar, or regular involved a great degree of personal judgement (see below). Of course, this could all be taken into account when discussing the results of the analysis, but descriptive analysis provides the opportunity to spot patterns in the data that would not have come to the fore had quantitative methods be employed to merely test whether pre-defined hypotheses could be rejected.

4. Gauging the Importance of Companies and Sectors to the State Class

This Chapter establishes mechanisms for indicating which companies are more closely administered by the Party and which sectors are more tightly regulated in the Chinese economy. Based on the

theoretical framework, it can be assumed that the Party-state elite wants to control companies and sectors more stringent that are more vital to its interests, that is, those companies that are essential for providing economic development without losing control. Therefore, from inquiring which companies and sectors are more tightly controlled, it can be inferred which sectors are more vital to the state class' interests. It is insignificant whether, in the domestic economy, these companies and sectors are truly more stringently controlled in practice, because these policies signify Party *intention* to control and thus form a reliable measure of importance to the Party. In the identification of measures of control of the Party-state over groups of companies, regulations that apply to all enterprises, such as different levels of government's auditing of large investments, are not included as these provide no basis for distinguishing differences in Party interest between firms.

The Chapter differentiates between four different administrators (private, local governments, the SASACSC, and the Party), and three types of sectors (strategic, pillar, and regular). Figure 1 graphically displays what these categories mean for the importance of contracts in the database to the state class. These two categories of administrator and sector are meant to be complementary. For example, Sinopec, one of the three oil and gas giants, is administered by the Party, and therefore most vital to the state class. It generally operates in strategic sectors: oil and gas. Contracts that are executed by Sinopec therefore qualify as highly relevant to the state class. An overview of companies included in the analysis and which administrator category they have been assigned is available in Appendix A, Table A2.

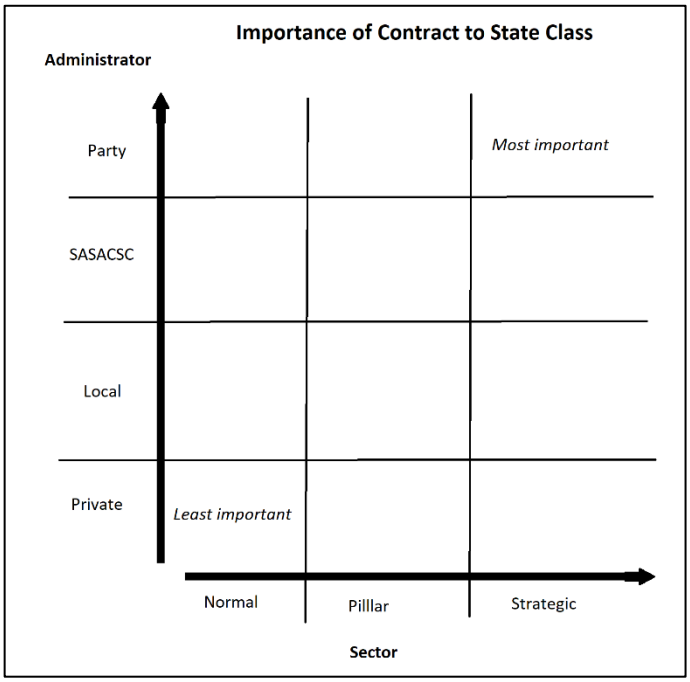

Figure 1. Importance of construction contract to the state class derived from the administrator of the company that executes it and the sector in which it is situated.

4.1 Administrators

The administrator is the highest level of government that is directly infecting an enterprise's conduct or personnel. The Party is here assumed to stand above formal state organs. These categories are therefore *not* formal ownership categories. While companies can be officially owned privately, by

local governments, or the SASACSC, companies whose top executives are on the Party's central *nomenklatura* list are formally owned by the SASACSC. Nonetheless, these latter companies constitute a distinct group within the central SOEs and are more directly managed by the Party elite. Therefore, they have been included as a separate administrator category: 'Party.' Nonetheless, formal ownership forms the basis of the distinction between different groups of companies in this thesis. Therefore, previous research on the differences between Chinese firms that are owned privately and by the state in their internationalization practices can provide a useful background to the typology in this thesis.

Although formal ownership as a mechanism of control has recently been downplayed as a factor that influences outward Chinese firm behavior (Milhaupt & Zheng, 2015), other research consistently points out that SOEs *do* behave differently than private companies. Alon, Wang, Shen and Zheng (2014) find that Chinese outward direct investment is dominated by SOEs and that SOEs' operations align more closely with central government strategies than private firms'. Amighini, Rabellotti, and Sanfilippo (2013) similarly report that SOEs' conduct aligns more closely with state policies and also find that they are less constrained by risky political and economic conditions in host countries. Investigating the Belt and Road in particular, Li and Zeng (2019) find that SOEs are much more likely to express willingness to partake in the BRI than private Chinese enterprises, and Du and Zhang (2018) find that, as concerns BRI-related overseas direct investment, SOEs are more active in the infrastructure sectors. Although the Party-state might not exercise control directly through ownership, differentiating by ownership still allows for separating firms that have a different position *vis-à-vis* the Party-state and therefore firms that are more or less vital to the Party's interests and strategies.

I will distinguish between four administrators. The first is private ownership, that is, firms that are not majority owned by the state. They can be either Chinese- or foreign-owned. Private firms naturally enjoy the greatest autonomy from the state, notwithstanding that their room for maneuver in China is heavily curtailed by central and local governments (Milhaupt & Zheng, 2015, pp. 683-688).

SOEs that are owned by non-central government entities constitute the second administrator category. These SOEs are usually owned by provinces or municipalities. Although they are owned by the government and their conduct is considerably politicized, they are not managed by the *central* government and hence not by the highest echelons of the CCP. Many of these non-central SOEs used to be part of central-level ministries until they were relegated to local levels of government in the 1990s 'grasp the big, let go of the small' reforms. Others had always been managed by local governments, but ownership rights were only officially transferred in 2003 (Naughton, 2015, p. 48).

That the CCP decided to no longer administer these centrally is testament to their relatively lower importance to the Party than the centrally owned SOEs.

The centrally owned SOEs constitute the third administrator category. These large, central SOEs that are often referred to as 'national champions' or *yangqi* are formally owned by the state through the ministry-level SASACSC (Li, 2016). SASACSC was established in 2003 to clarify ownership rights over SOEs, restructure them to only operate in sectors that were to be state-dominated according to the Party, and improve their corporate governance (Naughton, 2015, p. 48). It initially received ownership over 196 corporations that, through mergers, acquisitions, and privatization were to be reduced to around 100. Although SASACSC has considerable authority, Naughton's (2015, p. 46) comment that *'[SASACSC] is probably the most important organization in the world that nobody has ever heard of'* seems a slight exaggeration. At its creation, SASACSC was not given authority over the appointment of top senior managers of its largest SOEs, which remained with the Party. Nor was it entitled to dividends from the SOEs (Brødsgaard, 2012, p. 630). Nevertheless, what is important for the present inquiry is that by assigning SOEs to the SASACSC, and subsequently making them subject to a special policy regime, the Party-state indicates that these are of special importance to its interests and aims (see e.g. Yu, 2019, pp. 334-338).

The top executives of the 53 largest and most vital SOEs are not appointed by the SASAC but directly included in the Party's central *nomenklatura* (Brødsgaard, 2012, pp. 633-639). These SOEs constitute the fourth administrator category. *Nomenklatura* has been defined by Brødsgaard (2008) as *'a list containing those leading officials directly appointed by the party as well as those officials about whom recommendations for appointment, release or transfer may be made by other bodies, but which require the party's approval'* (p. 80). The ranks of firms whose top executives are on the list are equivalent to vice-ministry and their top manager and chairman of the board are directly appointed by the Communist Central Committee Organizational Bureau of the Party (Naughton, 2015, p. 60). Personnel is frequently rotated within the SOE sector and back and forth between the SOEs and the Party to prevent interests from entrenching and ensure adherence to the Party's objectives (Brødsgaard, 2012, pp. 634-639). Because of the strategic importance of these firms – most of them operate in sectors that the Party deems vital, see below – the Party aims to keep them as tightly controlled as feasible (Yu, 2019). In Naughton's words, '*[these] positions are simply too important, as patronage posts and controllers of resources, to slip out of the hands of the party'* (2015, p. 61).

4.2 Sectors

In 2006 the Chinese state designated two kinds of sectors in which SOEs should play a role: 'strategic' and 'pillar' sectors (World Bank, 2013, pp. 105-106; Owen, Sun & Zheng, 2007). In strategic sectors ,

the state intends to retain absolute control. These sectors are defense, electricity generation and distribution, petroleum and petrochemicals, telecoms, coal, civil aviation, and waterway transport. In pillar sectors, the state aims to retain a somewhat strong influence, in other words, a privileged position for SOEs but new entrants are allowed. These sectors are automobiles, information technology, equipment manufacturing, iron and steel, non-ferrous metals, construction, etc. (Yu, 2014, p. 167). The 'etc.' is problematic here, as all sources of this list in the literature end with it (World Bank, 2013; Owen, Sun & Zheng, 2007; Yu, 2014) and official documents are either no longer available or in Chinese. The most complete list of pillar industries, then, is that outlined above and provided by Yu (2014). This list has been used for allocating sectors in the database strategic, pillar, or regular status.

This problem is more or less emblematic of the Chinese state's treatment of specially important sectors: which sectors to which extent are reserved for SOEs is unclear (Yu, 2019, pp. 345-346). Therefore, SOEs have continued to sprawl out into the domestic economy. Naughton (2017, p. 286) reports that of the 1127 detailed sectors in the Chinese economy, state firms invested in 1021 in 2014. Yu (2015) argues that this is problematic: the dominance of SOEs is squeezing out private firms and deters new firms from entering markets where SOEs are active. Nevertheless, for present purposes, what matters is that the Party-state identified sectors by which it sets specific store and even subdivides them into two degrees of importance. The next Chapter will investigate whether SOEs are especially prominent in these strategic and pillar industries.

5. Analysis of Belt and Road Construction Contracts

This Chapter comprises the empirical part of the thesis. Through an examination of the distribution of contracts across company categories and sectors, it aims to establish whether the distribution of BRI contracts is similar to the extent of interest that the Party shows in specific sectors and companies domestically. The analysis proceeds along two lines: the absolute and relative amounts of contracts, and the value of these contracts. If these two are found to be similar, then the government elite has not felt the need to favor certain companies and sectors over others except for what is required by the overall development strategy. If valuable contracts are found to be highly concentrated, this might point towards those allocating contracts having other motives beyond controlling economic modernization. Firstly, the allocation of contracts by administrator category is examined. Secondly, the distribution of contracts among ownership categories *within* three different sectors is analyzed. Strategic sectors are expected to be most relevant to the Party-state and therefore contracts in these sectors mostly distributed to more directly controlled enterprises. Pillar

sectors are deemed less crucial to the Party, and residual normal sectors least. The Chapter concludes by discussing the usefulness of the three-sector subdivision in the light of the findings.

5.1 Contracts per Administration Category in General

In general, the distribution of contracts is heavily skewed towards centrally administered SOEs. Table 2 presents the distribution of contracts among administrator categories. It includes data on the absolute and relative distribution of contracts, mean contracts per company, and mean contract value per category. SASACSC-administered companies take up the lion's share of contracts, 63.5%, followed by Party SOEs (23.9%). Taken together, SOEs, including CITIC, account for an astonishing 91.5% of non-incidental (>1 contract per firm), Chinese-funded BRI construction contracts. On a per-company basis, SASACSC SOEs are firmly in the lead. Qua mean contracts per company, SASACSC companies received on average most contracts, followed by Party SOEs, private firms, and local SOEs, in descending order. It is notable that SASACSC enterprises received on average twice as much contracts as Party SOEs. Remarkable is that local SOEs receive on average the most valuable contracts, around 20% above average. This might, however, be attributed to chance: they received only 19 contracts in total. SASACSC firms' and Party firms' mean contract values are roughly similar. Taken together, central SOEs, and especially SASACSC SOEs, can be considered the main beneficiaries of the BRI. But are all central SOEs profiting equally?

In fact, they are not. The allocation of the number and value of contracts is heavily concentrated with a few central SOEs. Table 3 presents the top ten firms by number of contracts, and includes information on the firms' total contract value and administrator. The top ten firms together received 75.1% of contracts, accounting for 75.5% of value. These firms thus receive a disproportional amount of contracts, but their contracts are not remarkably valuable. The top four companies stand out as each received over a tenth of total contracts, and together they received almost half (47.4%), though accounting for only 40.2% of total value. The top ten companies are all centrally administered SOEs, 7 by the SASACSC and 3 by the Party, illustrating again how immensely favored state-owned enterprises are in the BRI. From this section it becomes clear that there are generally very few private Chinese companies that structurally benefit from Chinese-funded BRI contracts. Are private companies, however, more successful in sectors that are deemed to be less important to the Party-state?

Table 2. Distribution of construction contracts across administrator categories. Also includes information on mean contracts per company and mean contract value per category.

Administrator (amount of companies)	**Contracts (% of total)**	**Mean contracts per company**	**Mean contract value in mio USD**
Private (9)	60 (8.5)	7	314
Local Government (6)	19 (2.7)	3	597
SASACSC (14)	451 (63.5)	32	518
Party (12)	170 (23.9)	14	505
Other (1)	10 (1.4)	10	475
Total	710 (100)	17	499

Table 3. Top ten companies by absolute amount of contracts. Includes information on total contract value and administrator per company.

Company	**Contracts (% of total)**	**Total company contract value in mio USD (% of total)**	**Administrator**
1. Power Construction Corp	94 (13.2)	43990 (12.4)	SASACSC
2. China Communications Construction	87 (12.3)	37679 (10.6)	SASACSC
3. State Construction Engineering	80 (11.3)	30440 (8.6)	Party
4. Sinomach	75 (10.6)	30590 (8.6)	SASACSC
5. China Energy Engineering	41 (5.8)	31320 (8.8)	SASACSC
6. China Railway Engineering	41 (5.8)	19690 (5.6)	SASACSC
7. China Railway Construction	40 (5.6)	40580 (11.5)	SASACSC
8. Minmetals	32 (4.5)	10970 (3.1)	Party
9. Sinopec	22 (3.1)	9340 (2.6)	SASACSC
10. CNPC	21 (3.0)	12810 (3.6)	Party
Top 10 total	533 (75.1)	267409 (75.5)	

Table 4. Distribution of contracts among private companies, local SOEs, SASACSC-administered SOEs and Party SOEs across strategic, pillar, and regular sectors. Percentage of total contracts in a sector is noted in parentheses.

Administrator	**Strategic**	**Pillar**	**Regular**
Private	11 (4.9%)	36 (14.4%)	13 (5.5%)
Local Government	5 (2.2%)	10 (4.0%)	4 (1.7%)
SASCSC	154 (68.8%)	123 (49.2%)	174 (73.7%)
Party	54 (24.1%)	75 (30.0%)	41 (17.4%)
Total	224	250	236

5.2 Strategic, Pillar and Regular Sectors

To answer this question, the differences between sectors in the distribution of the number of contracts, contracts per company, and the value per contract must be considered.

5.2.1 Number of Contracts

Regarding the number of contracts, allocation varies considerably across sectors. Table 4 cross tabulates company categories by sectors. Because the sectors have different amounts of contracts, it is more useful to look at relative numbers here. The strategic sectors are most similar to the general average, but private enterprise involvement is a little lower, and local SOE involvement a little higher. In fact, private enterprise involvement is higher in both of the other categories. In pillar sectors, private companies are most prominent, but this is only in comparison to the other categories: SASACSC and Party SOEs are dominant in all three categories. Party SOEs are found to have been awarded a higher share of contracts in pillar sectors than in strategic sectors. Whether this can be attributed to erroneous allocation of sectors to one of the three categories is examined below. SASACSC SOEs are more prominent in regular sectors than in strategic and pillar ones. Taken together, central SOEs gain almost the same fraction of contracts in regular sectors (91.1%) as in strategic sectors (92.9%), but in strategic sectors Party SOEs are relatively more involved. In sum, strategic sectors are most dominated by companies that are close to the Party, closely followed by the regular sectors. Pillar sectors are clearly most open to private enterprises. But as indicated above, some company categories comprise more companies than others. What happens, then, if the numbers in Table 4 are converted to contracts per company?

5.2.2 Contracts Per Company

Table 5. Mean contracts per company among private companies, local SOEs, SASACSC-administered SOEs and Party SOEs across strategic, pillar, and regular sectors.

Administrator	**Strategic**	**Pillar**	**Regular**
Private	1.2	3.8	1.4
Local Government	0.8	1.7	0.7
SASCSC	11	8.8	12.4
Party	4.5	6.3	3.4
Total	5.3	6.0	5.6

As concerns contracts per company, the pillar sectors stand out. Table 5 presents the mean numbers of contracts for each administrator category in each sector category. The pattern is roughly the same as with the number of contracts, despite that some administrator categories contain much more companies than others. The numbers for strategic and regular sectors are comparable, but Party SOEs receive on average 32.4% more contracts in strategic sectors. They are most successful, however, in pillar sectors. In short, examining contracts per company revealed nothing extraordinary

that is not in line with findings regarding absolute and relative numbers of contracts by administration category. But what about the value of these contracts? Are the contracts of companies that receive many also more valuable, or is value distributed more equally among companies?

5.2.3 Contract Values

Table 6. Mean contract values for private companies, local SOEs, SASACSC-administered SOEs and Party SOEs across strategic, pillar, and regular sectors.

Administrator	Strategic	Pillar	Regular
Private	342.7 (240)	293.1 (230)	349.2 (190)
Local Government	428 (300)	677.0 (470)	607.5 (200)
SASCSC	586.7 (350)	386.7 (220)	549.0 (255)
Party	695.2 (430)	386.5 (230)	469.5 (200)
Total	597.3 (360)	385.9 (220)	525.0 (245)

Mean contract values per administrator category vary considerably across sectors, as shown in Table 6. In the strategic sectors, companies closest to the Party receive the highest-value contracts, and private companies the lowest. It is remarkable that in pillar sectors, central SOEs receive averagely-valued contracts, whereas local SOEs' mean contract value is 75% above the overall mean value for pillar contracts. As regards regular sectors, local SOEs again receive the highest-value contracts, followed by SASCSC SOEs and Party SOEs. Across sectors, private companies consistently receive the lowest-value contracts.

5.3 Discussion: How Useful are Sector Categories?

From the above becomes clear that SOEs, and especially central ones, are profiting greatly from the BRI. Both absolutely and on a per-company basis, it is clear that SOEs get more contracts than private firms. Moreover, their contracts are also more valuable. Within the state sector, there are some puzzling differences. In pillar and regular sectors, local SOEs receive by far the most valuable contracts. This is unlikely to be explained by direct patronage, as local SOEs are of all SOEs farthest removed from the central Party-state. Some of these findings might be explained by falsely indicating sectors as strategic, pillar or regular. For example, if some sectors that have been attributed 'pillars' are in fact 'strategic', and these sectors are as expected more populated by Party SOEs, then the relative share of contracts awarded to Party SOEs in strategic sectors is in fact higher than the 24.1% reported in Table 4. And, on the other hand, if some 'normal' sectors have been falsely designated 'pillar' status, then the relative share of private firms in pillar sectors might in fact be lower and in normal sectors be higher. As indicated above, the list of pillar sectors was not complete, and both strategic and pillar sectors have notoriously been defined vaguely by the Party-state.

To examine whether sectors might have been falsely attributed, a table containing the distribution of contracts among administrator categories across sectors and subsectors as provided in the dataset is presented in Appendix B. Put simply, there is not a single sector in which central SOEs do not dominate, except telecom, which is a strategic sector. Moreover, Party SOEs are dominant in some sectors that cannot by any means be considered strategic: education, entertainment, and tourism. Only the real estate construction subsector somewhat corresponds to the pattern that would be expected of a pillar sector: SASACSC and Party SOEs dominate, but private firms receive a comparable number of contracts. Altogether, differentiating sectors by strategic, pillar, and regular domestic importance to the Party has not proven a fruitful strategy. It seems likely that this domestic distinction does not apply to the BRI. Instead, the BRI is even more controlled by central SOEs than the domestic economy.

6. Conclusion

This thesis sook to contribute to an understanding of the nature of Chinese firm involvement in the BRI by inquiring whether companies that are closer to the Party are more involved in the BRI, and especially in sectors that are most relevant to the Party domestically. It argued that China is a Hobbesian contender state in the global order. Therefore, the CCP elite is in a precarious position where it should allow sufficient economic development to counter the imperialist tendencies of the Lockean heartland, but has to control this development to prevent progressive elements from posing a threat to the power of the state class. In this long-term passive revolution, state-owned enterprises have been vital for maintaining control over the economy, and the ambiguous position of the Party elite towards greater autonomy of the economy is reflected in SOE reforms. The Belt and Road was found to be an exponent of this passive revolution in ideational (Maoist central leadership / decentral management) and material (economic development) respects. The extent to which there is also an institutional continuity, that is, the employment of companies close to the Party in sectors that are deemed of importance to the Party elite, was investigated by analyzing the allocation of non-incidental construction contracts among four categories of companies and across three sectors.

The results obtained from the analysis provide only limited evidence for the Chinese firms serving the same role in the BRI as they do domestically. On the one hand, central SOEs are very prominent in the BRI with respect to both the number of contracts and contract values, and especially those that are administered by the SASACSC. Strategic sectors were found to be most dominated by central SOEs and in these sectors the least contracts were awarded to private companies, and on average also the least valuable contracts. On the other hand, SASACSC SOEs are by far most prominent in the BRI, though they are further removed from the Party than SOEs in the central *nomenklatura* list.

Pillar sectors were found to be comparably less dominated by central SOEs, though with a higher share of Party SOEs, and left more room to private firms, while regular sectors were almost as SOE-dominated as strategic sectors. In regular and especially pillar sectors, local SOEs received on average curiously valuable contracts. In the interpretation of differences between strategic, pillar, and normal sectors, considerable store must be set by difficulties in defining which sector in the database belongs in which category.

Taken together, and interpreted through the lens of the passive revolution, the general pattern in the findings precipitate that the Party elite is eager to control the BRI *even more* than its domestic economy. Central SOEs are astonishingly prominent, accounting for over 90% of non-incidental construction contracts. For participants in the BRI, this offers a grim perspective: a more equal distribution of BRI contracts seems unlikely.

What do these findings mean for future research? Firstly, they have implications for research focusing on the internationalization of Chinese SOEs. Previous research already established that SOEs' overseas undertakings more closely follow Party-state objectives and policies. In general, this is attributed to decisions on the side of the SOEs, with their ties to the state *allowing* them to pursue projects that are too risky for private firms. This thesis, however, suggests that it can also be a political decision to employ SOEs in foreign projects. The state class elite is found to have both a motive (controlling economic development) and a means (allocating contracts) for actively supporting SOE involvement. It is also found to favor central SOEs in practice in the BRI. Secondly, this thesis adds to an understanding of the nature of the BRI. For the first time, the structural involvement of different groups of companies has been gauged. Future research has to take this distribution of contracts into account. In this light, several presumed motives for the BRI may have to be reconsidered. For example, the liberalist explanation that the BRI is China's effort to provide 'global public goods' (Wang, 2016) gains a bitter aftertaste if the direct spoils are directly remitted to companies controlled by the Party-state.

Future research should focus on explaining why some enterprises benefit so much from the BRI. Why do just four companies account for almost half of BRI construction contracts? Is the high average contract value of local SOEs real, or must it be attributed to chance? Is there some kind of patronage network that explains both of these findings? Moreover, it should concentrate on *why* the state class is so eager to control the allocation of BRI contracts, while it is seemingly less interested in taking a strong lead in sketching a concrete, long-term perspective for the BRI and institutionalizing the project. These are some of the questions that have to be answered if we aim to come to a fuller understanding of the Belt and Road.

In his 2018 new year's speech, Xi Jinping stated that *'China will … actively push forward the implementation of the Belt and Road Initiative, and always contribute to the building of world peace … '* (Xi, 2017). 'Building' might have been meant literally.

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Appendix A: Additional Characteristics of the Dataset

Table A1. Sectors and subsectors in the dataset and whether they are assigned strategic, pillar, or neither category. For assignment procedures, see main text.

Sectors and subsectors	Assigned category
Agriculture	Normal
Chemicals	Normal
Energy	
- Alternative	- Normal
- Coal	- Strategic
- Gas	- Strategic
- Hydro	- Strategic
- Oil	- Strategic
Entertainment	Normal
Health	Normal
Logistics	Normal
Metals	
- Aluminum	- Pillar
- Copper	- Pillar
- Steel	- Pillar
Other	
- Consumer	- Normal
- Education	- Normal
- Industry	- Normal
- Textiles	- Normal
- Timber	- Normal
Real estate	
- Construction	- Pillar
- Property	- Normal
Technology	
- Telecom	- Strategic
Tourism	Normal
Transport	
- Autos	- Pillar
- Aviation	- Strategic
- Rail	- Normal
- Shipping	- Strategic
Utilities	Normal

Table A27. List of companies that were included in the analysis containing ownership information and whether they are on the central *nomenklatura*. Owners are State-owned Assets Supervision and Administration Commission of the State Council (SASACSC), non-central government entities (local) and private. CITIC is labelled as 'other' because it is directly administered by the Ministry of Finance. 'Party' is an administrator category for companies whose top executives are on the Party's central *nomenklatura* list.

Company	Formal owner	Nomenklatura	Administrator
AVIC	SASACSC	Yes	Party
Beijing Urban Construction	local	No	Local
China Communications Construction	SASACSC	No	SASACSC
China Energy Engineering	SASACSC	No	SASACSC
China National Building Material	SASACSC	No	SASACSC
China National Chemical Engineering	SASACSC	No	SASACSC
China National Nuclear	SASACSC	Yes	Party
China Nonferrous	SASACSC	No	SASACSC
China Poly	SASACSC	No	SASACSC
China Railway Construction	SASACSC	No	SASACSC
China Railway Engineering	SASACSC	No	SASACSC
CITIC	other	No	other
CNOOC	SASACSC	Yes	Party
CNPC	SASACSC	Yes	Party
Dongfang Electric	SASACSC	Yes	Party
Fujian Construction Engineering	local	No	local
Genertec	SASACSC	Yes	Party
Harbin Electric	SASACSC	Yes	Party
Huadian	SASACSC	No	SASACSC
Huawei	private	No	private
Jiangxi International Economic and Technical Cooperation	local	No	local
Minmetals	SASACSC	Yes	Party
Norinco	SASACSC	No	SASACSC
Power Construction Corp	SASACSC	No	SASACSC
Qingdao Hengshun Zhongsheng	private	No	private
Qingjian	private	No	private
Shandong Gaosu	local	No	local
Shanghai Construction	local	No	local
Shanghai Electric	local	No	local
Shanghai Tunnel Engineering	private	No	private
Sino Great Wall	private	No	private
Sinoma	private	No	private
Sinomach	SASACSC	No	SASACSC
Sinopec	SASACSC	No	SASACSC
Sinosteel	SASACSC	No	SASACSC
State Construction Engineering	SASACSC	Yes	Party
State Development and Investment Corp	SASACSC	Yes	Party
State Grid	SASACSC	Yes	Party

Tebian Electric Apparatus	private	No	private
Three Gorges	SASACSC	Yes	Party
Wison Energy	private	No	private
Zhongman Petroleum	private	No	private

Appendix B: Distribution of Contracts Among Administrator Categories by Database Sector

Sectors and subsectors	Assigned category	Private	Local	SASACSC	Party
Agriculture	Normal	0	0	16	0
Chemicals	Normal	1	0	13	5
Energy		15	5	160	53
- Alternative	- Normal	- 4	- 2	- 20	- 2
- Coal	- Strategic	- 2	- 1	- 23	- 13
- Gas	- Strategic	- 1	- 1	- 32	- 7
- Hydro	- Strategic	- 1	- 0	- 36	- 10
- Oil	- Strategic	- 3	- 0	- 24	- 16
Entertainment	Normal	0	0	1	6
Health	Normal	0	0	4	1
Logistics	Normal	0	0	6	0
Metals		1	0	15	8
- Aluminum	- Pillar	- 0	- 0	- 0	- 1
- Copper	- Pillar	- 0	- 0	- 2	- 0
- Steel	- Pillar	- 0	- 0	- 10	- 5
Other		0	0	8	6
- Consumer	- Normal	- 0	- 0	- 0	- 1
- Education	- Normal	- 0	- 0	- 2	- 4
- Industry	- Normal	- 0	- 0	- 4	- 1
- Textiles	- Normal	- 0	- 0	- 1	- 0
- Timber	- Normal	- 0	- 0	- 1	- 0
Real estate		34	3	38	47
- Construction	- Pillar	- 34	- 3	- 38	- 46
- Property	- Normal	- 0	- 0	- 0	- 1
Technology		4	0	2	1
- Telecom	- Strategic	- 4	- 0	- 2	- 1
Tourism	Normal	0	0	2	9
Transport		4	10	159	30
- Autos	- Pillar	- 1	- 7	- 70	- 20
- Aviation	- Strategic	- 0	- 3	- 10	- 6
- Rail	- Normal	- 3	- 0	- 3	- 50
- Shipping	- Strategic	- 0	- 0	- 27	- 1
Utilities	Normal	1	1	27	4