The Emergence of Mafia-like Business Systems in China

Meg Rithmire* and Hao Chen†

Abstract

A large body of literature on state–business relations in China has examined the political role of capitalists and collusion between the state and the private sector. This paper contributes to that literature and understanding of the internal differentiation among China's business elites by documenting the emergence of a particular kind of large, non-state business group that we argue is more akin to a mafia system than any standard definition of a firm. Drawing on large-N descriptive data as well as deep ethnographic and documentary research, we argue that mafia-like business systems share organizational principles (plunder and obfuscation) and means of growth and survival (relations of mutual endangerment and manipulation of the financial system). Understanding the particular moral economy that underlies mafia-like business systems and their interactions with the state challenges methodological foundations of research on China's political economy and helps to explain recent conflict between high-profile business people and the state.

Keywords: China's political economy; state–business relations; business groups; financial system

---

In January 2017, on the eve of the Chinese New Year celebrations, one of China's most famous financiers, Xiao Jianhua 肖建华, was taken from the Four Seasons hotel in Hong Kong back to mainland China. Although rumours have circulated for the two years since his capture that he would soon be brought to trial, he has yet to be charged or appear. Xiao was the founder and controller of a large family of companies known as the Tomorrow System (*Mingtian xi* 明天系)[1] and was commonly imagined as the "banker to the ruling class," allegedly managing the wealth of families at the highest level of the Chinese Communist Party (CCP).[2] Through high-level connections forged as early as his college years at Peking University, Xiao had built a business empire that included stakes in 44

* Harvard Business School, Boston, MA, USA. Email: mrithmire@hbs.edu (corresponding author).
† Tsinghua University, Beijing, China. Email: haochen@bu.edu.

1 In this paper, we use group when referring to the formal business group and system to refer to the larger, more informal family of firms.
2 Barboza and Forsythe 2014.

doi:10.1017/S0305741021000576 First published online 12 July 2021

financial institutions (at its peak) and thousands of affiliated firms, but, clearly, under Xi Jinping 习近平, his fortunes turned. His political patrons, although they may have alerted him to his imminent arrest, were unable to protect him, and many suspect that his long detention affords time for collecting information about Xiao and his associates inside and outside the state before public charges are stated.

Xiao's rise and fall, although dramatic, is not altogether unusual in contemporary China and especially in the era of the resurgent party-state under Xi Jinping. Famous financiers disappear from public view rather frequently; some resurface and claim they were simply seeking solace in mountain meditation (as Li Yifei 李亦非, one of China's most famous hedge-fund managers, maintained she had done in the middle of China's 2015 stock market crisis), and others offer no explanation and continue to lead their organizations (for example, Guo Guangchang 郭广昌 of Fosun, discussed below). Contrast Xiao and his contemporaries with Guo Wengui 郭文贵, the fugitive billionaire who left China in August 2014 and has been in exile in a New York City penthouse since 2017, speaking through news outlets and directly to followers via social media, accusing wide swathes of China's business and political elite of wrongdoing. Guo's salacious allegations have received attention and scorn alike, but almost certainly have implicated the careers of some of China's highest officials including, rather ironically, Wang Qishan 王岐山, Xi Jinping's top anti-corruption czar, whom Guo has accused of corruption.[3]

Why do some political and business elites appear to regard each other as mutual threats, and what does it mean for state–business relations in China? The answer requires a critical examination of large private firms in China and their relationship to the state. This article focuses on a specific type of large, non-state business group in China which we argue should be analysed in a category separate from those that typically populate political economic landscapes in China and other developing countries. We argue that many of China's largest non-state business systems are more akin to mafia systems, or organized crime, than they are to other conceptualizations of firms (i.e. entrepreneurs, small and medium enterprises, state-owned enterprises, national champions, and so forth) or even business groups.[4] We provide some systematic (large-N) and some ethnographic evidence to substantiate this bold claim. Mafia-like business systems can be identified by two features of their organization (plunder and obfuscation) and two means of growth and survival (relations of "mutual endangerment" within firms and between firms and political elites and manipulation of financial systems).

This analysis of mafia-like business systems contributes to debates about state–business relations and the political role of capitalists in China. This literature has produced two broad conclusions: first, that China's capitalist class is internally

3 Hilgers 2018.
4 For a discussion of state-owned business groups and their political statuses, see Brødsgaard 2012.

https://doi.org/10.1017/S0305741021000576 Published online by Cambridge University Press

differentiated, and second, that cooperation between much of the capitalist class and the state has produced widespread economic growth over the last several decades.[5] Scholars have generally not viewed capitalists as a political threat to the party-state and have more recently sought to explain how massive corruption can co-exist with, and even facilitate, productive economic growth.[6] Most research has focused on small-scale capitalists, in part because the private sector was relatively new and private firms had not yet scaled up to become large. The rise of large, mafia-like business systems underscores the internal differentiation of China's business class and, in doing so, showcases a particular form of state–business relations characterized by mistrust and acrimony, which has negative consequences for both China's economic and political stability.

A few words about conceptualization are in order before we proceed. First, in characterizing certain large conglomerate firms as "mafia-like business systems," we do not mean that they are the actual mafia in the sense of organized groups who use violence to sell protection, or subnational groups whose control of force either challenges or substitutes for the state.[7] Mafia-like business systems do not primarily wield violence as a tool of power, although neither is this unheard of. Violence manifests in a few ways: suicides of system affiliates, suspicious "accidental" deaths and occasional murders, and, most frequently, the use of state violence – arrest, imprisonment, even kidnapping – to settle scores among system participants.[8] Further, mafia-like business systems, unlike the real mafia, use extortion and clandestine activities to pursue legal business – for example, finance, real estate, entertainment – rather than illegal businesses, such as gambling, prostitution or drug trafficking.

Rather, we identify these firms as more akin to mafia because of the centrality of extortion. They obtain business resources such as state assets, land, credit or prestige through threats and unfair means, but the threats are not of violence executed by the firm itself but of exposure, incrimination and, by extension, the coercive power of the party-state.[9] Research on political economies with emergent markets, for example post-Soviet Russia, has identified organized crime as a particular solution to the problems of lack of rule of law and an absence of trust in markets, providing protection where the law and social norms do not.[10] Mafia-like business systems in China emerged in a similar context of limited formal property rights protection; however, instead of using thugs and violence to extort resources from the state and society, they manipulate a combination of political relationships, corporate governance institutions and the tools of financial capitalism. In this sense, if post-Communist Russia featured "violent competition

5 Tsai 2007; Dickson 2003; 2008; Bai, Hsieh and Song 2019; Ang 2016; Hou 2019.

6 Ang 2020.

7 Tilly 1990; Gambetta 1993. On actual organized crime groups in China, see Osberg 2013; Ong 2018; Pei 2016.

8 Research from economists on the relationship between organized crime, violence and politics suggests that violence is evidence of instability in the arrangements between political elites and mafia groups. Alesina, Piccolo and Pinotti 2016.

9 Many argue, following Schelling 1984, that extortion is the core activity of organized crime.

10 Markus 2015; Gambetta 1993; Volkov 2002; Handelman 1995.

for the spoils of Communism," China's mafia-like business systems are manifestations of the clandestine competition for the spoils of Chinese capitalism.[11]

The Organization of the Chinese Economy: A Macro Perspective

Two kinds of firms sit at the apex of large hierarchies in the Chinese economy: central state-owned firms (SOEs) and large private firms with complex organizational structures. A mature literature exists on the political economy of large state firms; this paper addresses large non-state firms.[12]

Outside of the "state sector," how are Chinese firms organized? We sampled 400 firms from a list of Chinese firms who had pursued a transnational merger or acquisition between 2001 and 2018, then collected corporate filings data on the 400 sampled firms, including ownership structure, actual controller, legal representative, subsidiaries, investments and so forth.[13] Figure 1 shows the distribution of actual controllers, once one follows the ownership structure and layers to find a final controller. The majority of firms (64 per cent) are owned by individuals; 34 per cent are owned by central or local state-owned assets supervision and administration commissions (SASACs). We found that 88 per cent of firms in the sample have more than one parent company or layer of ownership. The mean number of layers, which is how many parent companies we had to look through to find an actual controller, was 3.51, with a very high standard deviation: 7.09. The maximum number of parent companies was 63 (for China Minsheng Investment Group 中国民生投资集团, discussed below), and the highest number of layers in our sample was 11. For privately owned firms in our sample, 69 per cent of firms' legal representatives and actual controllers were not the same person.

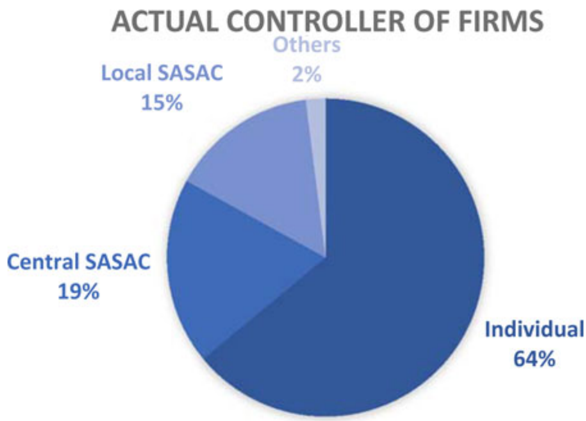
We then took the legal representatives as a population group and collected data on their activities, including the number of companies they represented and, of those, how many were classified as "holding companies" and how many companies they held investments in (either minority or majority stakes). These data are displayed in Table 1. Although the median number of firms owned by an individual is 14, a high mean and standard deviation indicate a long tail, meaning that quite a few individuals appear to be linked to extensive networks of companies. Table 2 displays data on the number of subsidiaries (controlling stake) and invested companies (any stake) by firms actually controlled by individuals. Here, we see the median number of subsidiaries and invested companies are 14.5 and 23 respectively, with a high standard deviation of 46 and

11 Handelman 1995, 10.

12 Wang, Yingyao 2015; Naughton and Tsai 2015; Leutert 2018.

13 "Actual controller" (*shiji kongzhi ren*) refers to the ultimate parent of the company (it can be an individual, a local government or the central SASAC), which can be discovered by following all layers of the ownership structure; "legal representative" (*faren daibiao*) is a natural person who acts on the company's behalf and bears civil, administrative and even criminal liability for the company. We collected the transaction data from FactSet Merger and used WIND to find corporate filing information. Clearly, a random sample of firms with transnational reach is not a random sample of all firms in China, but it qualifies as a convenience sample. A convenience sample is appropriate for our purposes because this paper's focus is describing a specific mode of business actors in China's political economy rather than making arguments about how representative these firms are.

Figure 1: **Actual Controller of Firms**



68 respectively and the maximum up to 337 and 613, meaning that many firms in China are clearly part of large, sprawling networks of firms connected through layers of ownership. Note that these data require tracing ultimate parents through corporate filing, but these data do not – and one cannot, without detailed work and close knowledge of people and their families – show networks, which are designed to be opaque, connected through obscure family and friend relationships.

Table 1: **Business Activities of Legal Representatives (Non-state Firms)**

	Median	Mean	75%	Std. Dev.	Max
Companies for which person is legal representative	14	41.97	45	90.15	858
Of those: holding companies	5	11.31	10	35.57	411
Number of companies in which invested	2	3.63	5	5.32	50

Notes:
$N = 159$.

Table 2: **Investments by Firms with Non-state Individuals as Actual Controllers (# Firms)**

	Median	Mean	75%	Std. Dev.	Max
Individual as Actual Controller ($n = 162$)					
Subsidiaries	14.5	29.87	34	46.04	337
Investments	23	41.01	45	68.35	613

https://doi.org/10.1017/S0305741021000576 Published online by Cambridge University Press

The presence of large business systems in a political economy like China's is not surprising. A wide body of literature argues that business systems develop in environments with poor regulatory and other institutions as firms create backwards and forwards linkages and diversify in order to internalize risk.[14] While some think of business groups as entrepreneurial in difficult contexts and as a mostly temporary phenomenon, likely to disappear in crises or with institutional maturation, others imagine these groups as a much stickier corporate form with a more predatory relationship to society.[15]

Many of the large business systems that have emerged in China over the last two decades are very different from the firms that comprised China's business landscape during the first two decades of reform (1980s–1990s) and constitute social systems with a distinct moral economy that requires interrogation.[16] We argue that they bear a greater resemblance to mafia systems than to firms organized to "maximize long-run profits" or even some other measure of the firm's status within the economy (for example, revenues, market share).[17] Tania Murray Li, in her discussion of Indonesian plantations, describes a mafia system as "an extended, densely networked predatory system in which everyone … must participate in order to get somewhere, or simply to survive. Predation means plunder; it also means consuming weaker animals. Hence anyone who does not become mafia – both defensive and predatory – is simply prey."[18] Understanding Chinese business systems as mafia systems helps to resolve some of the more puzzling patterns of their behaviour, including their embrace of (some forms of) globalization, their dramatic interactions with political elites, and the wide variation in the fate of different groups under Xi Jinping's resurgent Chinese state.

Mafia-like Business Systems in Organization and Practice

Our understanding of how these firms function – their organizational purposes, operations and principles – comes from an in-depth look at the systems and their participants. In the remainder of the article, we relay findings from interviews with system participants, including employees of business systems, those on the periphery of systems who frequently interact with them, and regulators who have, especially recently, sought to rein in the systems and disrupt their relations with political elites. We also draw on documentary evidence from the Chinese

14 Granovetter 2005; Leff 1978.

15 Khanna and Yafeh 2007; Morck, Wolfenzon and Yeung 2005.

16 Granovetter 2005 states that business groups can constitute "social systems in which participants have a strong sense of moral obligation to other members and a well-defined conception of what is proper behavior. Such conceptions are almost invariably accompanied by a strong sense of group identity, which confers a normative and extraeconomic meaning on social action" (433).

17 March 1962, 668.

18 Li 2018, 329.

https://doi.org/10.1017/S0305741021000576 Published online by Cambridge University Press

media and from research with corporate filings. We refrain from listing companies that we characterize as mafia-like firms and from attempting to draw a bright line between mafia-like firms and "normal" large, non-state conglomerates in China. As we elaborate below, mafia-like business systems are defined as much by their internal practices and cultures as by their outwardly visible organization and actions, and their activities are clandestine by design. Comprehensively identifying these firms would require deep ethnographic research of all of them. Here, we relay insights from fieldwork and detailed document work with a few systems, but we focus on the practices and features common across groups.

Moreover, as Li's above description connotes, mafia systems do not have defined borders. To interact with systems designed to plunder and which both threaten and protect is to be pressed into the system, voluntarily or not. The presence of large mafia-like systems has become a feature of China's political economy more broadly, a phenomenon all political economic players must navigate, rather than a few isolated practices cordoned off from the "legal" or mainstream economy. Table 3 captures the basic features of mafia-like business systems, which we conceptualize as a sub-type of business groups more generally. Mafia-like systems also exhibit the basic features of business groups (column A), but most business groups do not feature the organizational characteristics of mafia-like systems (column B). The remainder of the article is organized to discuss the specific and interrelated features of mafia-like business system organization (plunder and obfuscation) and means of survival (mutual endangerment and manipulation of the financial system).

Table 3: **Features of Mafia-like Business Systems**

	Large Business Groups	**Mafia-like Business Systems**
Objective	Revenues, profits through rent-seeking	Personal wealth of shareholders/ controllers through plunder
Organizational structure	Conglomerate or group; some pyramidal	Web-like, obfuscated
Internal relations	Interpersonal trust	Interpersonal threat
Relations with political elites	Patron-client relations	Mutual endangerment

Plunder

Mafia-like business systems are organized to plunder, or to facilitate resource capture and basic theft, mostly of social and public resources. Business groups in many places pursue the capture of rents, for example monopolies on licences, pet projects and favourable access to financial capital, but plunder is a step beyond rent-seeking because it involves theft. Mafia-like systems do not just pursue rents as a sort of "non-market strategy" to enhance corporate performance; rather, they are organized to facilitate the flow of public resources into private coffers, mostly with any productive activity as epiphenomena.[19] The practice of plunder is replicated within the organizational hierarchy. Employees and managers who do not take advantage of and exploit their positions, for example by taking cuts of transactions or wielding information against others to extract personal benefits, find themselves exploited, weakened and compromised by the system, such that they come to defend and perpetuate it in order to survive.

Plunder was present at inception for many of the private business systems that rose to the apex of the Chinese economy between 2004 and 2014. In the period between the late 1980s and the late 1990s, many local governments were under pressure to improve the bottom lines of their state-owned enterprises or to privatize them.[20] In practice, many sought private partners to inject capital and to manage these enterprises. For example, a firm that dominates a large inland province in China began when provincial authorities invited a private entrepreneur to take a large stake (between 40 and 49 per cent) in a provincially owned pharmaceutical company. That company then borrowed heavily from state banks in the mid-to-late 1990s to buy, at deeply depressed prices, other, smaller provincial and municipal enterprises in related and unrelated industries. The larger parent company then borrowed more extensively, using the assets of subsumed companies (especially land) as collateral, right up until the moment of privatization, which also occurred stealthily. Rather than buying a majority stake in the company outright, several of the entrepreneur's family members bought small stakes through holding companies, giving the central owner control rights.[21] This kind of "stealth privatization" – taking control of state assets, accessing preferential state loans and then privatizing these assets without public notice but with informal political support – was widespread.

A pervasive uncertainty about the political legitimacy and therefore longevity of these businesses affected the evolution of what would become large business systems. Insecurity generated short time horizons for owners and managers, and those short time horizons are reproduced within the organization's hierarchy. One person close to the managing family of a system put it this way:

> In the early days, they didn't know what would happen to their investments, so they took every opportunity they could. If a friend was in a high position at a bank, they would borrow because who knows what would happen tomorrow. So, for me, I could also lose my job anytime! So, I took every opportunity to get rich. Get rich today, because tomorrow, you don't know.[22]

This participant went on to describe his strategies for "getting rich today," which included bringing his own extended family members into investments and purchases, steering contracts towards friendly firms for clandestine kickbacks, and

19 This behaviour bears much in common with Akerlof et al.'s (1993) concept of looting.
20 Lin 2017.
21 Interviews with provincial and municipal officials, northern China, 2007–2012.
22 Interview with businessperson linked to large conglomerate, Hong Kong, June 2015.

inflating the prices of subcontracts within the organization and outside of it to pocket the money for himself.

The internal replication of the plunder principle creates an organization in which every participant expects to get a "cut" along the way. Indeed, a typical deal proceeds in this way. When crony firms borrow from banks, they do so through an "introductory contact" (*jieshao ren* 介绍人), who then takes a small fee, usually a percentage of the loan volume. All parties, then, have incentives to inflate deal prices – the loan officers and introducers, who get a cut, and borrowers, who enjoy access to cheap credit because of their political connections and the structure of China's financial system.[23]

The rapid rise and fall of the China Minsheng Investment Group (CMIG) illustrates the plunder principle as it applies to relations within mafia-like business systems and between them and the state. The CMIG is a nominally privately owned and managed firm. With significant state backing and formal approval from the State Council, it became the "J.P. Morgan" of China by investing in industrial upgrading.[24] In 2019, CMIG had 62 shareholders. Of these, 57 held 2 per cent or less and only one had more than 4 per cent. That one shareholder, which held 16.91 per cent of CMIG in March 2019, was a shell company owned and controlled by CMIG's management team. The idea behind the dispersion of the shareholders was to preserve the independence of the company's management, a model borrowed from China Minsheng Bank, a major privately owned bank where CMIG's founding chairman, Dong Wenbiao 董文标, had spent most of his career. Within five years of its establishment in 2014, CMIG had accrued over 300 billion yuan in debt, mostly financed by state banks, and entered state receivership.[25]

Pathologies in the management and organization of CMIG, ones explained by the plunder principle, contributed to the company's debt burden and failure. CMIG was characterized by a culture of risk-taking and informal relationships. According to interviews, the company's operational mode was more "do it first and ask later" (*xiannongle zaishuo* 先弄了再说) and "mutual enrichment" (*yiqi chirou* 一起吃肉, literally meaning "eat meat together") than careful assessment of investment opportunities and professional management of capital. The company culture was also described as "fly-by-night family culture" (*jianghu dage wenhua* 江湖大哥文化), connoting a kind of familial relationship among grifters.[26] Almost all of the shareholders in CMIG and the executive team are personally connected to Dong Wenbiao. Dong and his inner circle served the

23 We say more about the financial system below, but the key institutional features are limits on outward investment and low deposit rates, trapping Chinese savers and expanding the availability of cheap capital for firms with political access.

24 CMIG 2015.

25 CMIG 2019; Chen 2019.

26 The Chinese literally translates to "people wandering from place to place and living by their wits-big-brother culture," and the connotation is similar to itinerant confidence men (con men). Interview with member of local business community, Shanghai, July 2019.

https://doi.org/10.1017/S0305741021000576 Published online by Cambridge University Press

function that a central family usually does in most mafia systems. As one analyst put it, "the shares of the CMIG are too scattered. No one really cares about the company's money, nor does it care whether a project is really making money."[27]

In its five short years, CMIG's principals practised organized plunder with the state's resources, likely applying practices honed through years of participation in other mafia-like systems. Almost all of the group's activities were either related-party transactions or high-profile wastes of the state's resources in feigned efforts to invest in strategic sectors. For example, some private firms first invested a few billion yuan to become CMIG's shareholders. Then, subsidiaries of CMIG later awarded projects and contracts at inflated prices to firms affiliated with those shareholders, including transactions that appear to only provide use of CMIG's assets for individual executives associated with shareholding firms.[28] Many more of CMIG's individual shareholders pledged their shares to banks to acquire more loans, including in foreign currencies.[29]

How did CMIG devolve into organized plunder and self-dealing essentially at its inception, especially as the company was vested with political importance at a time of precarious state–business relations in China, a period when, one might imagine, this kind of risk-taking would be especially costly? The company's principals combined a learned culture of organized plunder with access to tremendous state resources. Once it became clear that some of CMIG's shareholders were self-dealing and many of its executives engaged in self-enrichment at the expense of the firm's future, no one had any incentive to defect from the arrangement. Instead, the plunder accelerated while state resources – credit, prestige of the company's name, political untouchability – were still accessible.

Obfuscation

Secrecy and obfuscation underlie the organization of mafia-like business systems. As the above data show, many large systems have sprawling connections among firms and are tied to shareholders whose identities are obscured by design. Recent research has endeavoured to show the value of political connections in China, for example examining political connections among board members, how political events affect company valuations and how the formal political positions of business people affect their companies and property rights.[30] Yet we know from widespread forensic reporting that political elites are connected to business empires through hidden relationships that are nearly impossible to uncover and track systematically. Mafia-like systems in particular feature tortuous paths of connection within firms, between firm assets and their actual controllers, and between firms and their political patrons.

27 Wu, Hongwei 2019.
28 Interview with member of local business community, Shanghai, July 2019.
29 Ling and Wu 2014.
30 Wang, Yuhua 2016; Truex 2014; Hou 2019.

https://doi.org/10.1017/S0305741021000576 Published online by Cambridge University Press

In addition to layers of corporate organization, many mafia-like systems are controlled by a person or family who operates behind the scenes. Take Xiao Jianhua's Tomorrow System as an example. A major strategy of this system was to "hide and disperse" (*yinbi + fensan* 隐蔽+分散), which means that major personnel, assets, subsidiaries and social networks are managed to be obfuscated, even to internal employees. From as early as 2004, Xiao and his wife systematically hid all of their positions within the system, resigning from affiliated firms as supervisors and not listing themselves as direct shareholders. To control his empire, Xiao built and controlled a large management team and cultivated a dependence on himself. Xiao's team had over a hundred people who were loyal to Xiao, many of whom had started following Xiao in the 1990s. To ensure Xiao's own authority, directors were ordered to rotate among Tomorrow's sub-systems (for example, listed firms, banks, securities, insurance) to prevent the formation of factions.[31]

Secrecy itself generates important implications for state–business relations. Secrecy, as economists have recognized, has distortionary effects on political economies: political elites design institutions and policies to maximize their potential for capturing value, and elite circles are closed to newcomers, stymieing reform and innovation.[32] Secrecy also has an important political effect because it imbues information with political value: both political elites and economic elites hold information about corrupt dealings that could potentially be used to discredit or endanger others.

Obfuscation further facilitates plunder, for example through hidden related-party transactions. These transactions facilitate both "tunnelling" (transferring assets and profits out of firms to benefit the controlling shareholders and expropriate minority shareholders) and inflating balance sheets of firms to borrow from financial institutions.[33] The Tomorrow System, for example, adopted a strategy of "distancing related-party transactions" (*guanlian jiaoyi fei guanlianhua* 关联交易非关联化) through shadow firms and labyrinthine corporate structures. In 2008, Tomorrow's two listed firms, Shanghai Ace 爱使股份 and Tomorrow Tech 明天科技, bought Ronglian 荣联, a non-listed, Inner Mongolian local company with net assets of 14.8 million yuan. At the time, Ronglian had one doomed project and no future prospects. However, Tomorrow's two listed firms invested 810 million yuan in that company, an amount that was 54 times greater than Ronglian's net assets. It was reported that the Inner Mongolian company was highly likely to be a firm within the Tomorrow System, although its parent companies (also non-listed) had no shareholding connections with the Tomorrow

31 Su 2013.
32 Schleifer and Vishy 1993.
33 Johnson et al. 2000. Most work on propping, tunnelling and related-party transactions relies on announcements made by listed firms in markets where related-party transactions are mostly legal. In the Chinese context, many of the transactions are much harder to trace. See Peng, Winnie, Wei and Yang 2011.

Group.[34] In this way, Tomorrow was able to raise funds from investors on China's stock markets and then transfer that money to unlisted firms, essentially expropriating minority investors.

Mutual endangerment

Mutual endangerment is a pattern of relations by which participants hold one another hostage with mutually incriminating information. Within mafia systems, participants are initiated by being enmeshed in illicit dealings, ensuring that they remain loyal to the system for fear of the system's downfall producing their own. Like plunder, mutual endangerment characterizes systems' relations with political elites inside the state and within the organization. Mafia systems invest in relationships with political elites because, as the literature predicts, they benefit from privileged access to state resources, but also because those relationships are insurance that the state will refrain from disciplining them.[35] In this sense, mutual endangerment is not simply patron–client relations, nor does closeness to political elites signal mutual trust. Its logic is to implicate and threaten and typically entails implicating as many factions and families as possible so as to widen the net of the system's protection. Mutual endangerment, then, involves webs of interlocking and competing loyalties rather than hierarchical and exclusive relations of patronage.[36]

Mutual endangerment, plunder and obfuscation create a vicious cycle: participants are incentivized to remain invested in the system, but they have no incentives to invest in productive activities and instead channel their activities towards capturing resources for themselves. Information about mutual wrongdoing is weaponized. One participant's knowledge of another's illegal or corrupt activities allows them to extract bargains for themselves, which they are easily impressed into doing. One cannot easily leave the system. Once a participant has knowledge about the system's inner workings, his knowledge is valuable and those within the organization would rather incorporate him further into the system, investing him in its success, than risk his knowledge being used against them.

Systematic empirical research on the connections between political elites and mafia-like firms is difficult to compile for obvious reasons. In addition to secrecy, mutual endangerment entails web-like relationships with many political elites and factions, which makes the dominant methodology of measuring the impact of political ties – looking at the effects of events featuring specific elites[37] – less than illuminating. The onset of Xi Jinping's anticorruption campaign has

34 Su 2013.

35 This dynamic is not unique to China. Blaydes (2010) describes the relationship between the late Mubarak regime and Egypt's elite businessmen-cum-politicians in the same terms.

36 On clientelism, see Hicken 2011. Hicken draws on James Scott's conceptualization of "instrumental friendship" and identifies volition ("with each side free to exit if they become dissatisfied with the nature of the relationship") as a key criterion (293).

37 For the seminal paper, see Fisman 2001. For application to China, see Wang, Yuhua 2017.

brought about tremendous changes in the balance of power and existential uncertainties that have led both political and economic system participants to betray one another. Firms dependent on political ties feared the downfall of their patrons and so made haste to access state resources while their access routes remained open. They hoped to establish sufficient international assets and name recognition to raise the political and financial costs of targeting them domestically. The campaign and the downfall of high-level officials have also provided an opportunity to examine the relationships between mafia-like systems and some elites.

One example is the fall of Xiang Junbo 项俊波, the former chairman of the China Insurance Regulatory Commission (CIRC), who was sentenced to 11 years in jail in 2020 after being dismissed from public office and expelled from the Party in 2017. Xiang presided over a tremendous expansion of the insurance sector between 2011 and 2017, particularly the increase in licences issued to firms to deal in financial insurance products. Loose regulations and political connections encouraged many firms to use insurance sector companies to raise funds which were used in complex financial manoeuvres that ultimately generated risks for savers and investors. Xiang was accused of "colluding with financial predators," who "hunted" Xiang and other officials in the financial sector.[38] Xiang was linked especially to Anbang, which had grown to become China's third-largest insurance company within two years, from 2014 to 2016, and whose chairman had bragged about his access to Xiang and was arrested a few months after Xiang's fall.[39]

Mutual endangerment explains why mafia-like systems fare so differently, even in the context of a strong leader and resurgent state targeting corruption and systemic risk. Take four firms – HNA, Fosun, Wanda and Anbang – which were named as "systemic risks" and placed under investigation for the financing of their overseas deals in June 2017.[40] By February 2018, the CCP had nationalized Anbang and jailed its chairman, Wu Xiaohui 吴小晖, on charges of fraud. Fosun's chairman, the charismatic Guo Guangchang, referred to by many as China's "Warren Buffet," was detained by police several times in the winter of 2015, reportedly to "assist," likely involuntarily, with Xi's anticorruption campaign. Interviewees noted that Anbang was the smallest of the four firms, making it the easiest to take down without systemic repercussions.[41] Many suspect that the other firms still have patrons in high places or else hold damaging information about current political elites, preventing the state from disciplining them in meaningful ways. A mafia-like business system, then, both endangers and protects its participants, inevitably folding them into a system of clandestine and

38 Yang and Han 2017.
39 Yang, Ling and Yu 2017.
40 Wu, Hongyuran, Guo and Leng 2017.
41 Interview with former China Insurance and Banking Commission regulator, July 2018.

https://doi.org/10.1017/S0305741021000576 Published online by Cambridge University Press

threatening relationships but then ensuring that they are protected from legal and political ramifications as long as they are loyal to the right people.

Manipulation of the financial system

Literature on organized crime in comparative perspective emphasizes institutional lacunae and lack of trust as conditions that facilitate the growth of mafia systems, some of which die out with institutional change while others sublimate into capitalist economic elites.[42] In early reform era China, the property of entrepreneurs was not protected by the rule of law but through informal political connections with mostly local-level officials. Because of the symbiotic relationship between local non-state business and local officials and the strength of the party-state's monopoly on the use of force, violence did not figure prominently in China's transition. Mafia-like business systems arose in particular with the expansion of financial markets in China, as regulatory lacunae permitted, and political relationships protected, racketeering and extortion in equity markets and China's banking system. Rather than guns or thugs, Chinese mafia-like business systems employ the technology of modern corporate organization and finance to extort social resources, obscure their activities and enrich themselves at the expense of other stakeholders.

As the Chinese financial system has expanded to include more non-state firms in both equity (stock exchanges) and debt markets (bank borrowings and corporate bonds), plunder has manifested itself in the financial schemes which have shaken the stability of China's economy and public trust in firms and markets. And as Chinese firms have gone global in the last decade or so, so have the schemes of mafia-like system firms. Take the case of China's supposed answer to Starbucks, Luckin Coffee, which is part of Charles Zhengyao Lu's 陆正耀 Shenzhou System 神州系, which launched in the 1990s as many government officials were "jumping into the sea" of business and state-owned firms were undergoing ownership reforms.[43] Lu, aided by a senior official in Beijing, acquired the majority of China Telecom's Beijing business and was introduced to domestic and foreign financiers. Luckin Coffee was headed by Jenny Qian 钱治亚, who started as Lu's assistant and worked within the Shenzhou System for 13 years. The Shenzhou System appeared to be perennially on the edge of financial ruin, requiring rescue by investors as it relied on a method of price cutting and rapid expansion in nearly every business it entered.

The Luckin company set a world record after filing for an IPO and listing on the Nasdaq within 18 months of founding in 2017. In early January 2020, Luckin was valued at US$10.6 billion. By the end of that same month, however, a renowned US short-seller tanked the company's stock by announcing it had received an anonymous report about the company's fraudulent revenue reporting

42 Volkov 2002, 1–2, 26.
43 Dickson 2003.

and declaring it to be a "fundamentally broken business."[44] Luckin eventually announced it had discovered an extensive fraud and placed the blame on its chief operating officer for fabricating and inflating sales. Behind the scenes, however, Jenny Qian, Charles Lu and others seemed prepared for the company's fall. Luckin's directors, executive officers and major shareholders had pledged shares for cash (Jenny Qian and Charles Lu themselves had pledged 47 per cent and 30 per cent, respectively) for an estimated total of US$2.5 billion. International investors are unlikely to recover funds from Luckin and its principals because of the company's complex ownership structure, which leaves ownership of its assets in a Chinese firm even though it raises capital in foreign markets.[45]

Other firms have taken advantage of regulatory lacunae to acquire financial firms or exploit financial markets to self-deal. Since the early 2000s, financial regulation has been divided into different peak agencies with jurisdiction over three separate sectors (insurance, securities and banking). In practice, mafia-like business systems have exploited the lack of oversight to pursue licences in different sectors and to leverage financial positions to exploit investors (stock market investors and private equity investors) and savers (through access to banks). Anbang, for example, funded its aggressive domestic and international expansion efforts by selling investment products to Chinese savers. The products offered higher returns than low domestic bank deposit rates offered, but came with questionable risk coverage, and Anbang regularly exceeded quotas and skirted regulations thanks to its high-level political connections.[46] Anbang had financial relationships with hundreds of investment companies, taking large or small positions in firms which, in turn, would then reinvest in Anbang's own firms through several layers of partnership.[47]

Most mafia-like systems have a few listed firms. Those firms are, in reality, controlled by the system in such a way as to obscure the concentration of shareholder power and reassure minority investors. Public market transactions among (obscured) related parties are a primary means through which mafia-like systems exploit the financial system. A common strategy is to use shadow firms to gain obscured control of financial firms, which are then used to finance more self-dealing and expansion. This was the case with the Tomorrow Group's Baoshang Bank, which was 89.27 per cent owned by the Tomorrow Group through the combined holdings of dozens of shareholders. The bank then loaned over 150 billion yuan to over 200 shell companies registered by the Tomorrow Group, all of which were non-performing when the state seized Tomorrow's

44 Fineman and Yang 2020.

45 Solomon 2020.

46 One insurance regulator remarked that some companies, including Anbang, were beyond the purview of regulators because they were politically protected and secure. This only changed in 2016–2017, when officials in Beijing began talking about systemic financial risks. Interview with insurance regulator, Shanghai, May 2017.

47 Guo 2017.

assets.[48] As was the case for CMIG and Anbang, the state eventually assumed the financial burden of unwinding mafia-like systems.

The state's assumption of the burden was not unpredictable. The CCP has long proven itself intolerant of financial risk and instability, and such an intolerance combined with political protection has led mafia-like systems to assume risk with impunity. When the Tomorrow Group fell, almost the entire Inner Mongolian banking regulatory apparatus, including retired officials, came under investigation. Like Xiang Junbo, these officials were said to have been "willing to be hunted" by "financial predators" who both threatened and protected them.[49] Mafia-like business systems tend to disperse their financial dealings widely among financial institutions. Just as mafia-like systems pursue connections with a diverse array of political elites, relationships with many financial institutions enable systems to both hide their assets and debts and tie the fortunes of financial institutions to their own. Table 4 displays data, collected from corporate filings, on the bonds issued in China's domestic bond market between 2004 and 2017 for three conglomerate systems (HNA, Fosun and Anbang) discussed above. As the table shows, each firm involved many banks and securities firms as they entered debt markets, bringing a wide array of institutions into their orbit and exposing many large financial firms to the mafia-like systems' risky activities.

Those within the financial system with ties to mafia-like firms were, whether they wished it or not, participants in the mafia-like system. Even if they benefited little or not at all personally from illicit activities, they had few incentives to report or sanction them and instead sought ways to maximize their own benefits while watching others plunder. In 2016–2017, as the Xi administration, alarmed by levels of corporate debt, trained its sights on financial risks, the focus was not just on firms which had borrowed incredible sums at low rates from domestic financial institutions but also on the regulators and lenders who made this possible. In April 2017, Premier Li Keqiang 李克强 called for a "crack down" on the banking, insurance and securities sectors, urging "relentless punishment" for internal supervisors and managers who "collude with major players" to commit fraud and self-dealing (for example, by lending to shareholders).[50]

Conclusion

We have argued that certain large conglomerate firms in China share organizational features and economic and political practices that render them closer to organized crime syndicates than "firms" in a market economy. We have identified "mafia-like business systems" as those firms which are organized to obfuscate and to facilitate the plunder of state and social resources, and which

48 Peng, Qinqin, and Han 2020; Zhou 2020.

49 Zhou 2020; Wu, Hongyuran 2020.

50 "Economic watch: China's financial industry under greater scrutiny amid latent risks." *Reuters,* 10 April 2017. Via *Xinhua,* http://www.xinhuanet.com//english/2017-04/10/c_136197053.htm.

Table 4: **Corporate Bonds for Select Firms, 2004–2017**

	HNA	**Fosun**	**Anbang**
	174 bonds 157 billion yuan	97 bonds 125 billion yuan	22 bonds 27.3 billion yuan
Banks involved:	China Everbright Bank CITIC Bank Shanghai Pudong Development Bank Bank of China Bank of Communications Hengfeng Bank China Development Bank China ExIm Bank China Construction Bank China Merchants Bank Agricultural Bank of China	Shanghai Pudong Development Bank CITIC Bank China Everbright Bank Agricultural Bank of China Industrial and Commercial Bank of China China Construction Bank Bank of China Bank of Communications Industrial Bank Bank of Beijing China Merchants Bank	Shanghai Pudong Development Bank CITIC Bank China Construction Bank Bank of China Minsheng Bank Bank of China Bank of Communications Bank of Beijing
Securities firms involved:	China Securities Co. Morgan Stanley Huaxin Securities Sino-German Securities UBS Securities Haitong Securities China Galaxy Securities Shenwan Hongyuan Securities First Venture JPMorgan Chase Securities China Development Bank Securities Ping An Securities Jianghai Securities Great Wall Securities Haitong Securities Bohai Securities	China Merchants Securities China Securities Debon Securities	China Securities Co. Everbright Securities
Total financial institutions involved:	26	14	9

Source:

Bond prospectuses collected through WIND database and the National Association of Financial Market Institutional Investors.

engage in relations of "mutual endangerment" with political elites. We have also argued that these systems have systematically manipulated financial systems in China and, increasingly, abroad, in efforts to extort capital in pursuit of short-term gains. These mafia-like business systems are not actual mafia – i.e. they do not threaten, use violence or challenge the state's monopoly on the use of force – but their widespread extortion, clandestine activities and use of political threats (of exposure) make them a close analogue.

We do not analogize these business systems to mafia organizations to be provocative or to malign, but rather to illuminate the political pathology of fraudulent, illegal and corrupt business practices. To be sure, fraud and bad faith business practices can emerge almost anywhere, but the scale, prevalence and nature of mafia-like systems in China cry out for analysis and explanation in a way that embeds the phenomenon in China's particular political economy. This article has not systematically accounted for the emergence of these systems in a way to identify the causal forces that produce them, but we have identified features of the Chinese system, including regulatory lacunae, a lack of formal means of property protection and pervasive uncertainty, which seem to facilitate the rise of mafia-like systems. None of these features is particularly surprising, but nonetheless, more research is necessary to understand the timing and particular paths of growth pursued by mafia-like systems.

Here, we suggest three implications of viewing some large business systems as mafia-like firms and of the specific features we identify. First, the presence of sprawling firm systems with obfuscated relations within the systems, and between the systems and the state, complicates many assumptions and methods in the study of China's political economy. A good deal of quantitative work on firms treats them as independent units, yet many of them are anything but. Moreover, most attempts to explain firm behaviour assume that firms rationally pursue profits or revenues. Recognizing mafia-like firms means we must acknowledge an altogether different set of logics, including the pursuit of safety amid relations of mutual endangerment.

Second, mafia-like business systems occupy a politically consequential space in state–business relations in contemporary China. For much of the early reform era, the private sector was described as "co-opted" because the interests of the party-state and entrepreneurs were mutually aligned. As scholars have recognized, however, co-optation has limits: business elites will support the party-state when it is in their interests to do so, but business elites are heterogeneous and their support is not unconditional.[51] The phenomenon of mafia-like business systems lays bare the fact that "close" or "cozy" relationships between political and business elites can be fundamentally unstable, rather than a source of resilience for the regime. Mafia-like business systems are products of acrimonious relationships between business and the state, not friendly ones; certainly, political and

51 Bellin 2000; Dickson 2008; Tsai 2007; Pei 2016.

https://doi.org/10.1017/S0305741021000576 Published online by Cambridge University Press

business elites have found common cause in mutual enrichment through privileged access to public resources, but these elements of the private sector can indeed pose a significant threat to the regime's stability in a number of ways, such as revealing compromising information, generating financial or economic instability, capital flight, defection and migration.

Lastly, these firms are inextricably related to the development of the Chinese domestic and global financial systems over the last two decades or so. Plunder, obfuscation and mutual endangerment were not invented by large conglomerate firms; research on the moral economy of China's entrepreneurs has long documented complex webs of interconnection, anxiety and criminal activity in state–business relations.[52] The mafia-like firms we describe here are different because of their enormous scale and the systemic influence within Chinese politics and in the domestic and even global economy. Such a scale would not be possible without the opportunities presented by the edifice of a modern financial system, namely the expansion of stock markets, diversification of forms of corporate finance and the widespread adoption of corporate organizational tools. Adopting the technology of modern finance and corporate organization without the accompanying legal foundations allowed mafia-like firms to appropriate that technology for a very different set of purposes than generating sustainable prosperity in the Chinese economy. Adept at navigating China's domestic financial system, Chinese mafia-like firms then turned their attention to adopting the tools of global capital flows: transnational mergers and acquisitions, complex offshore accounting schemes and so forth. In this sense, mafia-like business systems are not simply features of a transitional post-communist system, but rather creatures of China's unique configuration of capitalism.

Acknowledgements

We thank the Harvard Business School's department of faculty research and development for funding. For helpful research assistance, we thank Chen Bofan, Jamie Chen, Nathan Cisneros, Mike Shao, Andy Fan, Jennifer Fang, David Hicks, the Harvard Shanghai Center, and Knowledge and Research Services at Baker Library. For helpful feedback and criticism, we thank David Barboza, Rafael DiTella, Chang-Tai Hsieh, Rosalyn Hsueh, Yasheng Huang, Kristen Looney, Didi Kuo, Jonas Nahm, Margaret Pearson, Qian Xisuan, Tony Saich, Saul Wilson, John Yasuda and the seminar participants at the Wharton School's department of business and legal ethics, the MIT China Seminar, the HKU Center for Chinese Law and the 2020 APSA China Mini-conference.

Conflicts of interest

None.

52 Osberg 2013.

Biographical notes

Meg RITHMIRE is F. Warren McFarlan associate professor at Harvard Business School where she teaches in the business, government and international economy unit. Her book, *Land Bargains and Chinese Capitalism* (2015) was published by Cambridge University Press. Her latest project examines state–business relations in China, Malaysia and Indonesia.

Hao CHEN is a distinguished visiting professor (2021–2022) in the Schwarzman Scholars Program at Tsinghua University. Previously, he served as a postdoctoral scholar and teaching fellow at the University of Southern California's Center for International Studies. He received his PhD in political science from Boston University. His current research interests include state–business relations, leadership politics and urban welfare.

摘要: 关于中国政商关系的现有研究大多集中在讨论企业家的政治角色及政府与私营企业间的合作与合谋。本文通过研究中国企业精英的内部异质性对现有理论作出贡献。具体来说，通过分析近年来兴起的某类特殊大型非国有企业集团，本文发现此类资本并非标准意义上的企业。基于大样本数据分析及人志学研究，本文发现这类资本系统在组织原则及成长手段上具有共性，包括窃取与迷惑及互致险境与金融操纵。理解这类资本系统本身及其与政府的关系挑战了传统中国政治经济研究的方法论基础，同时可以更好地理解近年来某些商业精英与政府间的关系。

关键词: 中国的政治经济; 政商关系; 企业集团; 金融系统

References

Akerlof, George, Paul Romer, Robert Hall and N. Gregory Mankiw. 1993. "Looting." *Brookings Papers on Economic Activity* 2, 1–73.

Alesina, Alberto, Salvatore Piccolo and Paolo Pinotti. 2016. "Organized crime, violence, and politics." NBER Working Papers No. 22093.

Ang, Yuen Yuen. 2016. *How China Escaped the Poverty Trap*. Ithaca, NY: Cornell University Press.

Ang, Yuen Yuen. 2020. *China's Gilded Age: The Paradox of Economic Boom and Vast Corruption*. Cambridge: Cambridge University Press.

Bai, Chong-en, Chang-Tai Hsieh and Zheng Song. 2019. "Special deals with Chinese characteristics." *NBER Macroeconomics Annual* 34(1), 341–379.

Barboza, David, and Michael Forsythe. 2014. "With choice at Tiananmen, student took road to riches." *New York Times*, 3 June.

Bellin, Eva. 2000. "Contingent democrats: industrialists, labor, and democratization in late-developing countries." *World Politics* 52(1), 175–205.

Blaydes, Lisa. 2010. *Elections and Distributive Politics in Mubarak's Egypt*. New York: Cambridge University Press.

Brødsgaard, Kjeld Erik. 2012. "Politics and business group formation in China: the Party in control." *The China Quarterly* 211, 624–648.

Chen, Yanrong. 2019. "Zhongmintou xin guanli jiagou fuchu shuimian" (A new management structure for CMIG has surfaced). *China Financial News*, 27 August, http://www.financialnews.com.cn/jigou/rzzl/201908/t20190827_166818.html.

CMIG (China Minsheng Investment Group). 2015. "Zhongmintou de yuanjing he diyibu, duihua Dong Wenbiao" (The vision and first steps of CMIG: a conversation with Dong Wenbiao), 12 November, https://www.cm-inv.com/cn/ourtalk/1012.htm.

CMIG. 2019. "Zhongmintou yu Zhongguo changcheng kaizhan quanmian hezuo" (CMIG and China Great Wall begin collaboration on all fronts), 1 March, https://www.cm-inv.com/cn/companyNews/2299.htm.

Dickson, Bruce. 2003. *Red Capitalists in China*. New York: Cambridge University Press.

Dickson, Bruce J. 2008. *Wealth into Power: The Communist Party's Embrace of China's Private Sector*. New York: Cambridge University Press.

Fineman, Joshua, and Yueqi Yang. 2020. "Citron, Muddy Waters clash on Twitter over Chinese coffee chain." *Bloomberg*, 31 January, https://www.bloomberg.com/news/articles/2020-01-31/short-sellers-take-to-twitter-for-spat-over-chinese-coffee-chain.

Fisman, Raymond. 2001. "Estimating the value of political connections." *American Economic Review* 91(4), 1095–1102.

Gambetta, Diego. 1993. *The Sicilian Mafia: The Business of Private Protection*. Cambridge, MA: Harvard University Press.

Granovetter, Mark. 2005. "19 business groups and social organization." Neil Smelser and Richard Swedberg (eds.), *The Handbook of Economic Sociology*. New York: Princeton University Press and Russell Sage Foundation, 429–450.

Guo, Tingbing. 2017. "In depth: a maze of capital leads to Anbang's aggressive expansion." *Caixin Global*, 30 April, https://www.caixinglobal.com/2017-04-30/a-maze-of-capital-leads-to-anbangs-aggressive-expansion-101084940.html.

Handelman, Stephen. 1995. *Comrade Criminal: Russia's New Mafiya*. New Haven, CT: Yale University Press.

Hicken, Allen. 2011. "Clientelism." *Annual Review of Political Science* 14(1), 289–210.

Hilgers, Lauren. 2018. "The mystery of the exiled billionaire whistle-blower." *New York Times Magazine*, 10 January, https://www.nytimes.com/2018/01/10/magazine/the-mystery-of-the-exiled-billionaire-whistleblower.html.

Hou, Yue. 2019. *The Private Sector in Public Office: Selective Property Rights in China*. New York: Cambridge University Press.

Johnson, Simon, Rafael LaPorta, Florencio Lopez-de-Silanes and Andrei Schleifer. 2000. "Tunneling." *American Economic Review: Papers and Proceedings* 90(2), 22–27.

Khanna, Tarun, and Yishay Yafeh. 2007. "Business groups in emerging markets: paragons or parasites?" *Journal of Economic Literature* 45(2), 331–372.

Leff, Nathaniel H. 1978. "Industrial organization and entrepreneurship in the developing countries: the economic groups." *Economic Development and Cultural Change* 26(4), 661–675.

Leutert, Wendy. 2018. "The political mobility of China's central state-owned enterprise leaders." *The China Quarterly* 233, 1–21.

Li, Tania Murray. 2018. "After the land grab: infrastructural violence and the 'mafia system' in Indonesia's oil palm plantation zones." *Geoforum* 96, 328–337.

Lin, Yi-min. 2017. *Dancing with the Devil: The Political Economy of Privatization in China*. New York: Oxford University Press.

Ling, Huawei, and Wu Hongyuran. 2014. "Dong Wenbiao zhuanshen" (Dong Wenbiao's turnaround). *Caixin,* 18 August, https://weekly.caixin.com/2014-08-15/100717205.html.

March, James. 1962. "The business firm as political coalition." *Journal of Politics* 24(4), 662–678.

Markus, Stanislav. 2015. *Property, Predation, and Protection: Piranha Capitalism in Russia and Ukraine*. New York: Cambridge University Press.

Morck, Randall, Daniel Wolfenzon and Bernard Yeung. 2005. "Corporate governance, economic entrenchment, and growth." *Journal of Economic Literature* 43(3), 655–720.

Naughton, Barry, and Kellee Tsai. 2015. "Introduction." In Barry Naughton and Kellee Tsai (eds.), *State Capitalism, Institutional Adaptation, and the Chinese Miracle*. New York: Cambridge University Press, 1–24.

Ong, Lynette. 2018. "'Thugs-for-hire': subcontracting of state coercion and state capacity in China." *Perspectives on Politics* 16(3), 680–695.

Osberg, John. 2013. *Anxious Wealth: Money and Morality Among China's New Rich*. Stanford, CA: Stanford University Press.

Pei, Minxin. 2016. *China's Crony Capitalism: The Dynamics of Regime Decay*. Cambridge, MA: Harvard University Press.

Peng, Qinqin, and Han Wei. 2020. "China allows Baoshang Bank to go bankrupt in final cleanup." *Nikkei Asia and Caixin*, 7 August, https://www.caixinglobal.com/2020-08-07/china-allows-baoshang-bank-to-go-bankrupt-in-final-cleanup-101589758.html.

Peng, Winnie, K.C. Wei and Zhishu Yang. 2011. "Tunneling or propping: evidence from connected transactions in China." *Journal of Corporate Finance* 17(2), 306–325.

Schelling, Thomas. 1984. *Choice and Consequence*. Cambridge, MA: Harvard University Press.

Schleifer, Andrei, and Robert W. Vishy. 1993. "Corruption." *The Quarterly Journal of Economics* 108 (3), 599–617.

Solomon, Steven Davidoff. 2020. "A Chinese company's accounting lies cost US investors billions. Recovering losses may be hopeless." *The Wire China*, 10 May, https://www.thewirechina.com/2020/05/10/luckin-scandal-exposes-risks-in-us-china-rift/.

Su, Longfei. 2013. "Mingtian diguo: yingzi jinrong daheng Xiao Jianhua de zichan bantu" (Tomorrow empire: asset map of Xiao Jianhua). *Xin caifu*, 5 April.

Tilly, Charles. 1990. *Coercion, Capital, and European States, AD 990–1990*. Oxford: Blackwell.

Truex, Rory. 2014. "The returns to office in a 'rubber stamp' parliament." *American Political Science Review* 108(2), 235–251.

Tsai, Kellee. 2007. *Capitalism without Democracy: The Private Sector in Contemporary China*. Ithaca, NY: Cornell University Press.

Volkov, Vadim. 2002. *Violent Entrepreneurs: The Use of Force in the Making of Russian Capitalism*. Ithaca, NY: Cornell University Press.

Wang, Yingyao. 2015. "The rise of the 'shareholding state': financialization of economic management in China." *Socio-Economic Review* 13(3), 603–625.

Wang, Yuhua. 2016. "Beyond local protectionism: China's state–business relations in the last two decades." *The China Quarterly* 226, 319–341.

Wang, Yuhua. 2017. "Betting on a princeling." *Studies in Comparative and International Development* 52(4), 395–415.

Wu, Hongwei. 2019. "Duanbi qiusheng zhongmintou" (CMIG seeks to survive by breaking its own arm). *Caixin*, 18 February, https://weekly.caixin.com/2019-02-16/101380357.html.

Wu, Hongyuran, Nan Guo and Cheng Leng. 2017. "China asks banks to assess credit risks linked to firms active in overseas deals." *Caixin Global*, 22 June, https://www.caixinglobal.com/2017-06-22/china-asks-banks-to-assess-credit-risks-linked-to-firms-active-in-overseas-deals-101104621.html.

Wu, Hongyuran. 2020. "Baoshang yinhang pochan daojishi" (Baoshang Bank bankruptcy countdown). *Caixin*, 17 August, https://weekly.caixin.com/2020/cw918/.

Yang, Qiaoling, Ling Huawei and Yu Ning. 2017. "Fuhuo Xiang Junbo" (Xiang Junbo hunted). *Caxin*, 9 October, https://weekly.caixin.com/2017-09-29/101152157.html.

Yang, Qiaoling, and Wei Han. 2017. "Tegao: Xiang Junbo baojianhui wu nian luomu you kandian" (Special: what to watch for at the end of Xiang Junbo's five years at the Insurance Regulatory Commission). *Caixin*, 10 April, https://finance.caixin.com/2017-04-10/101076536.html.

Zhou, Xuedong. 2020. "Zhongxiao yinhang jinrong fengxian zhuyao yuanyu gongsi zhili shiling: cong jieguan gaoshang yinhang kan zhongxiao yinhang gongsi zhili de guanjian" (The financial risks of small and medium banks mainly stem from the failure of corporate governance: the Baoshang Bank). *Zhongguo jinrong* 15, 19–21.