New Political Economy

ISSN: 1356-3467 (Print) 1469-9923 (Online) Journal homepage: http://www.tandfonline.com/loi/cnpe20

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To cite this article: Lee Jones & Yizheng Zou (2017): Rethinking the Role of State-owned Enterprises in China's Rise, New Political Economy, DOI: 10.1080/13563467.2017.1321625

To link to this article: http://dx.doi.org/10.1080/13563467.2017.1321625

Published online: 03 May 2017.

NEW POLITICAL ECONOMY, 2017
https://doi.org/10.1080/13563467.2017.1321625

Rethinking the Role of State-owned Enterprises in China's Rise

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ABSTRACT
The massive overseas expansion of Chinese state-owned enterprises (SOEs) is a central aspect of China's 'rise' to great-power status. There is significant disagreement, however, over how to interpret SOEs' role. Are they instruments of Chinese statecraft, being directed purposefully from Beijing as part of a 'grand strategy'? Or are they relatively autonomous, profit-maximising businesses, their free-wheeling behaviour often undermining Chinese foreign policy? Finding that there is evidence for both theses, we provide a framework to explain this. We propose theorising party-state/SOEs relations using the concepts of state transformation and regulatory statehood. We show that the Chinese state's fragmentation, decentralisation and internationalisation since the late 1970s has substantially increased SOE autonomy and weakened but also transformed the executive's control, reconfiguring it towards a regulatory mode of governance. Party-state/SOEs relations are thus characterised not by direct command and control but weak oversight and ongoing struggles within the party-state. We illustrate this using a case study of China Power Investment Corporation and its Myitsone hydropower dam project in Myanmar. Here, a central SOE clearly defied and subverted central regulations, profoundly damaging Sino-Myanmar state-to-state relations. Party-state authorities are now struggling to rein in this and other central SOEs.

ARTICLE HISTORY
Received 28 July 2016
Accepted 7 April 2017

KEYWORDS
China; state transformation; regulatory state; state-owned enterprises; corporate governance; Myanmar

Introduction

The dramatic overseas expansion of Chinese state-owned enterprises (SOEs) is central to China's 'rise'. SOEs were encouraged to 'go out' from 2000; by 2010, over 30,000 Chinese firms were operating overseas, half of them SOEs, and SOEs accounted for over 80 per cent of China's outward investment (Zhang 2010b: 157–8). By 2015, 98 of the Fortune 500 list of the world's largest companies were Chinese – up from just 10 in 2010 and second only to the United States. Three quarters were SOEs (Cendrowski 2015).

This massive global expansion of what remain *state*-owned businesses – particularly natural resources and energy firms – has generated heated debate about their role. Alarmists in Western policy circles, media and academia depict SOEs as 'an extension of government economic policy' (Robins 2013: 526). From this perspective, SOEs are directed by Beijing's geopolitical and mercantilist priorities, deliberately undermining Western policy by collaborating with 'rogue' states like Iran, Sudan and Myanmar, and supporting Chinese expansionism in the South China Sea (Reuters 2005, Canning 2007, Downs 2014). SOEs' attempted mergers and acquisitions in Western markets are frequently resisted on 'security' grounds, while their expansion into developing countries is depicted as

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Chinese 'colonialism', including by some US policy-makers (for example, Rotberg 2009, Quinn 2011; for a summary of criticisms, see Li 2012).

Conversely, many scholars argue that China's SOEs are essentially autonomous, market-driven actors (Gonzalez-Vicente 2012). They expand overseas not as arms of state power, but to seek new supplies and markets after the exhaustion of domestic ones. While remaining state-owned, they have been 'corporatised' – listed on foreign stock exchanges, governed at arms-length, and converted into profit-seeking entities (Zhang 2010b). SOEs do not simply ship resources back to China, but mostly sell to the highest bidder on global markets (Downs 2008, Houser 2008). From this perspective, Beijing's control is minimal. Indeed, while SOE chairmen 'retain considerable influence at the highest levels of government' (Andrews-Speed 2010: 23), they can 'adapt, modify and even subvert government directives', potentially undermining Chinese foreign policy (Chen 2009: 254, also Gill and Reilly 2007: 39).

This article seeks to transcend this polarised debate by providing a framework to understand party-state SOE relations that can account for evidence on *both* sides of the argument. This approach is important because there is mounting evidence for *both* increased SOE autonomy *and* residual state control (Tunsjø 2013, Norris 2016), rendering the dichotomised approach to this issue increasingly unhelpful. However, we still lack a theorised framework to make sense of this apparently contradictory evidence. Therefore, drawing on Hameiri and Jones (2016), we offer a novel framework using the concepts of state transformation and regulatory statehood. We argue that the uneven and contested fragmentation, decentralisation and internationalisation of Chinese state apparatuses since 1978 has reconfigured party-state/SOE relations away from a simple 'command-and-control' relationship towards a Chinese-style regulatory state model. This has weakened party-state oversight, accounting for the evidence of autonomous and even reckless SOE conduct. However, party-state control has not simply vanished – it has been reconfigured; party-state leaders retain tools to influence SOEs. From this perspective, the party-state/SOE relationship is best conceptualised not in dichotomous, either/or terms (either state control or total autonomy), but as an evolving, struggle between disparate actors within a fragmented, poorly coordinated governance structure.

We support this theoretical analysis with a case study of China Power International Corporation's (CPI) Myitsone hydropower dam project in Myanmar.[1] We demonstrate that, far from promoting 'national interests', in a reckless pursuit of profit, CPI systematically violated Chinese regulations, exploiting the loose regulatory state. This eventually led to the project's suspension in September 2011, fuelled civil conflict in Myanmar, and seriously damaged Sino-Myanmar relations. We then consider the party-state's damage-control efforts, which involved cracking down on CPI and recentralising control over bilateral relations, causing significant foreign-policy departures.

Understanding SOEs through the prism of state transformation

This section analyses the transformation of the Chinese state to clarify and theorise party-state/SOE relations. We argue that state transformation processes – the contested and uneven fragmentation, decentralisation and internationalisation of state apparatuses – and moves towards regulatory statehood have weakened and transformed party-state control over SOEs. Our analysis: first, describes broad changes in China's economic governance; secondly, identifies the consequences for SOE governance; and, thirdly, draws out the implications for understanding China's overseas SOEs. We argue that party-state/SOE relations are best understood as reflecting evolving struggles within a transformed, Chinese-style regulatory state.

State transformation: changes in China's party-state

We first sketch the transformation of the Chinese state in the post-1978 'reform era', emphasising the broad, uneven and conflict-ridden fragmentation, decentralisation and internationalisation of state apparatuses, and the rise of a Chinese-style regulatory state. We draw heavily on decades of specialised scholarship on China's 'fragmented authoritarianism' (Lieberthal 1992, Mertha 2009), which 'alarmists' typically ignore.

China's state transformation is closely associated with the contested shift from Maoist state 'socialism' towards marketisation. To foster economic growth and maintain Chinese Communist Party (CCP) rule, Chinese elites have reconfigured the state, away from a 'command and control' system (direct state control of all production and distribution of goods and services) towards a Chinese-style 'regulatory state'. In 'regulatory states', governments shift from using 'positive intervention' to directly secure desired outcomes towards 'negative coordination', issuing guidelines to 'steer' diverse public, private and hybrid actors (to which control and accountability is dispersed) towards desired ends (Majone 1994). China's cautious move towards regulatory statehood is widely observed (Pearson 2005, Hsueh 2011, Breslin 2013). It can be observed in the abolition of state agencies controlling planning, production and distribution; the spinning-out of autonomous SOEs from former production ministries; widespread privatisation; and the dispersion of policy-making authority, including to new, independent regulators (Zheng 2004: 91–106). Rather than issuing direct orders, party-state leaders increasingly 'steer' other actors using regulations and guidelines – often-vague pronouncements described as 'tentative rules/measures/ordinances' or 'suggestions' (Zhang 2010b: 17, 90, 132, 174, 94).

We refer to a *Chinese-style* regulatory state to denote two important characteristics shaping its practical operation. First, the Chinese party-state retains authoritarian modes of intervention not found in Western-style regulatory states (Pearson 2005). These include controls over exchange rates, taxes, licenses and credit, and powers of appointment and discipline. We elaborate this point further below. Secondly, state transformation processes – the uneven and contested fragmentation, decentralisation and internationalisation of state apparatuses – have also undermined the emerging regulatory state's coherence.

The Chinese party-state has become more *fragmented*. Due to piecemeal reforms, experiments and compromises between reformists and conservatives, substantial regulatory overlaps now exist between competing bureaucratic entities. For example, 11 different ministerial-level agencies influence Chinese energy policy (Meidan *et al*. 2009: 596–7); 11 have some jurisdiction over maritime affairs (ICG 2012: 8); and 18 oversee counter-narcotics (Su 2015: 79). Despite coordination efforts – notably via 'leading small groups' (LSGs) of the CCP Politburo or State Council – Chinese governance has accordingly become more disjointed, with constant struggles over power, resources, and policy, from inception to implementation (Andrews-Speed 2010). Different state entities may even pursue very different – even contradictory – policy agendas, including overseas (Jakobson and Knox 2010, Hameiri and Jones 2016).

These problems are exacerbated by *decentralisation*, particularly to China's provincial governments. To facilitate governance experiments conducive for economic growth, local governments have been given uneven policy concessions and the right to 'interpret' and adapt national regulations to their local contexts. They frequently use this authority to advance and protect local economic interests, producing substantial non-compliance with central directives (Aken and Lewis 2015). Moreover, because they are equally ranked in the party-state system, government ministers cannot issue governors with direct orders. Thus, although the centre has clawed back some powers since the early 1990s, China is now a '*de facto* federal' system (Zheng 2007), with constant bargaining between governmental tiers. Xi Jinping's recent recentralisation drive is just another round in this ongoing power struggle, and it is 'too soon to say' whether it will partially resolve, or even 'compound [the] challenge' of central control (Lampton 2015: 775).

Finally, the Chinese state has become unevenly *internationalised*: formerly domestic apparatuses have expanded beyond China's borders, becoming enmeshed with other actors, institutions and processes. For example, the reformist People's Bank of China has joined the Basle banking committee, a global regulatory network, seeking to impose international disciplines at home to overcome conservative rivals (Bell and Feng 2013). Formerly domestic agencies like coastguards, functional ministries and the security forces have acquired foreign and security policy roles (Jakobson and Knox 2010).

Provincial governments control their foreign economic relations, signing agreements with foreign leaders from Asia to Africa (Li 2014, Chen and Jian 2009). And, of course, SOEs have increasingly internationalised.

Implications for SOE governance

We now identify four implications of the aforementioned changes for SOE governance specifically. First, the uneven shift to regulatory statehood has reduced direct central control of SOEs, notwithstanding important residual controls. Second, state fragmentation and decentralisation further complicate central regulation. Third, state internationalisation is uneven: while SOEs have gone global, regulatory agencies have not kept pace. Furthermore, state fragmentation is expressed internationally, further weakening SOE regulation.

The shift to regulatory statehood is primarily expressed in the gradual separation of SOE ownership and control. In 2003, ownership of centrally owned SOEs was transferred to the State Asset Supervision and Administration Council (SASAC) under the State Council. SASAC is a shareholder, not a direct owner, planner or manager. Its remit is to protect and enhance state asset values – to promote their profitability – not to achieve strategic or foreign-policy goals (Gill and Reilly 2007: 42). The State Council's 2004 'Decision on Reforming the Investment System' further separated governmental functions from enterprise management, making SOEs responsible for their profits and losses. SASAC also took control over appointments of senior SOE managers (though not their top leaders) from the CCP's Organisation Department (Pearson 2005: 306). Furthermore, SASAC accelerated SOE mergers, which began in the 1990s with the privatisation of smaller firms and the conglomeration of larger ones. SASAC also promoted 'corporatisation' for the resultant mega-firms: the application of private-sector management techniques and partial privatisation through stock issues, including on overseas exchanges, which often involved improving corporate governance. Furthermore, SASAC empowered new, independent regulators to oversee certain sectors. SOEs were thereby removed from direct ministerial or CCP control, with managers becoming responsible to profit-seeking shareholders (Zhang 2010b: 141).

However, as noted above, the Chinese-style regulatory state retains several authoritarian control mechanisms that leaders can potentially use to influence SOEs (Tunsjø 2013: ch.2, Breslin and Wang 2016). They include:

- Control over exchange rates, taxes, regulations, licenses and permits, including for land use.
- The allocation of subsidies, credit and insurance via policy banks, which is often necessary for large overseas ventures.
- The *nomenklatura* system, whereby the CCP's Organisation Department and the Ministry of Personnel appoint central SOEs' topmost leaders. These positions are often coveted stepping-stones to higher office, making compliance with senior leaders' policies important.
- The CCP's Cadre Responsibility System, that is, regular appraisals against centrally-determined targets.
- The CCP's Central Commission for Discipline Inspection (CCDI), which investigates and punishes malfeasance.

The existence of such mechanisms is what gives superficial credence to the 'arms of the state' thesis. Even scholars like Tunsjø (2013) and Norris (2016), who ostensibly seek to reconcile the 'arms of the state' and 'profit-seeking' theses, claim that their existence shows that China's top leaders can still control SOEs directly when necessary, even if SOEs are mostly profit-seeking entities. However, the evidence for this proposition is weak. Tunsjø suggests that, in a crisis, China's national oil companies (NOCs) 'might' be forced to ship oil home; but this is entirely speculative, and merely 'assumed' because of China's 'autocratic leadership' (2013: ch.5). Tunsjø and Norris also suggest that NOCs in Sudan and Iran were reined in for geostrategic purposes. However, Tunsjø's own account shows China National Petroleum Company (CNPC) *ignoring* government guidelines by continuing to invest in Sudan, while Norris also identifies no behavioural change (Tunsjø 2013: ch.4, Norris 2016: ch.4). In Iran, reported government instructions to NOCs to 'slow down' produced, at best, a temporary reduction in exports to China (apparently caused by NOCs squeezing the Iranians on price), followed by 'record high' exports. China also sought to exclude energy from UN sanctions on Iran, suggesting its diplomacy followed SOE interests, not vice-versa (Tunsjø 2013: ch.4). Thus, the mere existence of authoritarian-style instruments within the Chinese-style regulatory state does not automatically imply robust central control when SOEs' commercial interests diverge from Beijing's 'strategic' goals.

This can largely be explained by the impact of the state transformation dynamics described earlier. State *fragmentation* and *decentralisation* has created an extremely complex regulatory environment, with independent regulators facing competition from many different actors (Pearson 2005). These include:[2]

- Subnational governments, which supervise most of China's some 113,000 SOEs. Today, SASAC controls only 111 large, 'central' SOEs in 'strategic' sectors – armaments, electricity generation and distribution, oil, coal, chemicals, telecommunications, aviation and shipping. Over 900 SOEs, some sizeable and internationalised,[3] are owned and supervised by provincial governments' SASAC equivalents. The rest – around 112,000 smaller firms – are owned by lower-level administrations. As noted earlier, subnational governments 'interpret' (or ignore) often-vague central regulations, according to local conditions and interests.
- The National Development and Reform Commission (NDRC), which is responsible for: authorising state investment in projects over US$30 million; price-setting for certain scarce/vital commodities and services; licensing; strategic restructuring; and industrial and climate change policy.
- The Ministry of Commerce (MOFCOM), which supervises all foreign economic relations, including trade, investment, aid and Chinese businesses' overseas conduct.
- The Ministry of Finance, which handles tariffs policy.
- The Commission of Science, Technology and Industry for National Defence, which is concerned with defence-related and strategic industries.
- Various functional ministries, which often have overlapping jurisdictions.
- State-owned policy banks:
  - The corporatised China Export-Import Bank, which supports trade by providing credit and insurance and, like MOFCOM, supports overseas Chinese business deals by providing aid and concessional funding;
  - China Development Bank, which funds large-scale infrastructure projects;
  - China Export Credit and Insurance Corporation (Sinosure), which provides export credit insurance, often as a form of subsidy.
- The State Council, whose approval (on NDRC advice) is required for overseas investments over US $200 million, and which (along with the CCP Politburo) must resolve lower-level inter-agency deadlock.
- The Ministry of Foreign Affairs (MFA), which is responsible for China's diplomatic relations and thus has a strong interest in – yet no control over – overseas SOEs.
- Issue-specific LSGs, which also – with doubtful success – seek to coordinate competing agencies, for example, Foreign Affairs, Financial and Economic Affairs, Energy, Climate Change and Emissions.

This fragmentation can easily generate multiple, potentially contradictory, regulations, mandates and agendas for SOEs, granting SOEs considerable latitude to decide which to follow.

Detailed scrutiny of the energy sector illustrates the problem. Meidan *et al.* (2009: 596–7) identifies 11 ministerial-level agencies influencing Chinese energy policy: the Ministries of Commerce, Land and Resources, Water Resources, Science and Technology, Foreign Affairs, Railways, Construction and Environmental Protection; the State Electricity Regulatory Commission; the State Commission of Science, Technology and Industry for National Defence; and SASAC. To this, Tunsjø (2013: ch.3) adds the Politburo and its Standing Committee, the National People's Congress, provincial governments, the armed forces – and the energy SOEs themselves, whose chairmen sometimes enjoy up to vice-ministerial rank. Repeated attempts to rationalise energy regulation have failed. Energy SOEs successfully resisted the creation of a proposed 'super-ministry', with various 'coordinating' bodies formed instead: the NRDC's Energy Bureau (2004), the State Council's Energy LSG (2005) and the National Energy Commission (2008). These were, at best, 'consultative' and 'coordinative' bodies, unable to override existing agencies, which retained their powers (Christoffersen 2005: 73–4, Chen 2009: 252, Andrews-Speed 2010: 40–1). This conflict-ridden, fragmented system allows energy SOEs to selectively implement policies and regulations in pursuit of their own corporate interests, 'rather than … the national interests of the Chinese state' (Downs, in Houser 2008: 151, see also Downs 2008, Chen 2009: 249–50). The recent revelation of massive corruption and patronage networks at CNPC reflects this latitude, and the wider malfeasance within Chinese SOEs (see Pei 2016: 5). Notably, this has occurred where central party-state leverage should be strongest: energy is a 'strategic' sector, with top SOEs all centrally owned, without decentralisation adding to the problems. The situation in other sectors is even more complex.

The Chinese state's uneven *internationalisation* also weakens SOE regulation. Although top SOEs have 'gone global', key regulatory apparatuses have not internationalised to the same extent, and their fragmentation often generates conflicting agendas. MOFCOM is formally responsible for regulating Chinese businesses overseas. It does so in a regulatory state manner, issuing (often-vague) regulations. MOFCOM also controls the economic missions within Chinese embassies (Corkin 2011b: 34, Cabestan 2009: 83). These arrangements are widely considered inadequate. Chinese embassies often do not even know how many Chinese companies are actually operating in their jurisdictions (Corkin 2016: 99). Moreover, MOFCOM's internationalisation often generates conflict with embassy personnel under the MFA. While the MFA's mission is to maintain cordial interstate relations, MOFCOM – a much stronger agency – primarily promotes Chinese business interests, often disregarding the political or diplomatic consequences (Corkin 2011a). For example, in Costa Rica in 2010, facing difficulties importing Chinese workers for a major SOE project, MOFCOM's commercial attaché and the SOE allegedly bribed Costa Rican diplomats to obtain the necessary visas. The (MFA) ambassador was uninvolved – until the scandal broke, causing serious interstate tensions (Cardenal and Araújo 2013: 153). Local MFA and MOFCOM personnel also struggle to direct other agencies, like China's Export-Import Bank, according to their agendas. MOFCOM typically wins (Corkin 2011a: 74, 2016: 62).

This underscores the MFA's weak, reactive nature. Due to state transformation, the MFA – never a particularly strong agency – has lost power to diverse central and provincial-level actors (Jakobson and Knox 2010). Its minister is not a member of the CCP Politburo or even the State Council, and reportedly struggles even to make the top 50 in the CCP Central Committee. The MFA participates in some LSGs, but these struggle to coordinate the fragmented actors now involved in China's foreign relations; indeed, it is unclear whether they even meet regularly, or at all (Lampton 2015). Thus, far from being able to control SOEs abroad, the MFA is often unaware of or powerless to affect their activities, merely being saddled with the diplomatic 'blowback' when things go wrong. In 2011, for example, it was revealed that Chinese state-owned arms companies had sold US$200 million of weaponry to Libya's embattled regime, violating a United Nations embargo that China officially supported. Caught unaware, the MFA was left 'fire-fighting' the resultant outrage (Zhang 2013). Top leaders have known of such problems for at least a decade: President Hu's address to the 2006 Diplomacy Work Conference bemoaned the inadequate coordination of Chinese overseas actors as damaging to Beijing's international standing (Johnson 2016: 17). However, despite additional regulations being issued, these problems continue.

Understanding overseas Chinese SOEs

We now draw out the implications of the foregoing for understanding the behaviour of Chinese overseas SOEs and their place in China's 'rise'. We first reject existing attempts to theorise party-state/SOE relations using principal-agent theory (PAT), arguing that state transformation means there is no singular or clear 'principal' or goal for the SOE 'agent' to pursue. Instead, we conceptualise party-state/SOE relations as reflecting ongoing struggles within the disaggregated, Chinese-style regulatory state.

The few scholars who have attempted to theorise, rather than merely describe, party-state/SOE relations have used PAT (Gill and Reilly 2007, Norris 2016). However, state transformation dynamics make this unsatisfactory. PAT assumes the existence of separate and coherent principals and agents, each with clearly defined interests, then asks how principals can control agents under challenging circumstances. However, in China's case, no such clarity exists. Not only is the 'agent' (SOE) part of the 'principal' (state) but, due to state transformation, there *is* no single 'principal' with a clear goal that could be imposed upon SOEs. Rather, as the MFA/MOFCOM division shows, there are *multiple, contending* 'principals', with potentially very different goals. As Norris (2016: 223) admits, a fragmented state 'often cannot even agree on what is in "China's" best interests, let alone pursue those interests via economic channels'. Hence, the Chinese state cannot, as Norris claims, be understood as a 'unitary, rational actor' pursuing a 'grand strategy' against which SOE compliance can be measured (Norris 2016: 44–54).

Norris's study of CNPC in Sudan illustrates the difficulty. Initially, he claims that 'the state' sent NOCs overseas 'to secure oil'. Later, however, he correctly states that the 'going out' policy was actually devised by the profit-seeking NOCs themselves in the early 1990s, without leaders' approval, and was only ratified *post hoc* several years later. Moreover, CNPC's conduct is not assessed against the goal of 'securing oil', but a different one: the 'State wants to promote China's image as a "Responsible Stakeholder"' (Norris 2016: 67, 75, 77, 85). Yet, even when 'the state' was supposedly united around this goal, CNPC's behaviour did not change. Rather, other state actors changed *their* behaviour: MFA diplomats began supporting peacekeeping interventions in Sudan, abandoning China's non-interference policy, and MOFCOM (ineffectually) issued new regulations (Norris 2016: 78–80).

Clearly, due to state transformation, different parts of 'the state' were actually pursuing different goals at different times. SOEs and MOFCOM were pursuing markets and profits; the MFA was concerned with China's 'image'. When these goals came into conflict amid growing Western pressure on Sudan, Chinese state apparatuses struggled for control over goals and outcomes, but there was not necessarily a decisive 'victory' or clear reassertion of 'state control' according to a single will, precisely because 'the state' is not a unitary actor. Hence, rather than trying to evaluate 'state control' over SOEs, it is more instructive to foreground the contestations over SOE governance, within the structural context of state transformation. This perspective yields three primary insights.

First, the broad contours of overseas SOE governance reflect a Chinese-style regulatory state model. Contrary to the alarmist, 'arms of the state' thesis, Chinese party-state leaders rarely – if ever – 'order' SOEs to do things according to some 'grand strategy'. Even if they wanted to, the governance structures described above would make this extremely difficult. However, contrary to the 'purely profit-seeking' thesis, this does not mean that SOEs can do whatever they please. The shift to regulatory statehood does not simply denote a 'weakening' of state control but, more importantly, a reconfiguration of how governance works. Chinese leaders 'steer' SOE activity not through direct instructions but by issuing broad targets, principles and guidelines. Particularly given residual authoritarian controls over personnel, policy concessions and capital allocation, SOE leaders are constrained to present their behaviour as enacting these directives, or at least not directly defying them.

Secondly, however, state transformation dynamics make this policy 'envelope' loose and baggy, giving SOEs considerable latitude to 'interpret' its practical meaning. To accommodate the diverse interests arising from state fragmentation and decentralisation, top leaders typically issue only vague slogans and guidelines – 'atmospheric guidance', as Norris (2016: 52) dubs it. Moreover, state transformation has produced overlapping or contradictory regulatory regimes and policy objectives. This allows SOEs considerable space to 'interpret' central guidelines according to their own pecuniary interests, and to present their profit-seeking schemes as 'implementing' top-level policies, thereby attaining policy and financial concessions. Actual policy outcomes are thus strongly conditioned by SOEs' own strategies, which may produce outcomes not intended in Beijing.

From this perspective, China's 'going out' strategy of internationalising SOE activity is not a state-directed resource-grab, 'colonisation' drive, or deliberate challenge to Western interests, but rather a broad regulatory framework, driven by China's state transformation processes and associated economic developments. As stated earlier, 'going out' was not a top-down, geopolitical 'grand strategy' but arose, bottom-up, as a *post hoc* rationalisation of what some SOEs were already doing and/or lobbying for. As well as the NOCs, 'going out' was essential for extractive, agribusiness and fishing SOEs facing dwindling domestic supplies (Zhang 2012), and construction firms bearing surplus capacity generated by uncoordinated overinvestment by local, decentralised governments (Li and Wu 2012). The injunction to 'go out' is a loose policy envelope, lightly regulated by short and often-vague MOFCOM guidelines. Especially given the MFA's marginalisation, the overall direction given to SOEs was: go abroad and make profits. SOEs enjoyed considerable freedom to interpret this message, with the cover that they are simply enacting top leaders' directives.

It is this dynamic, rather than any strategic direction from Beijing, that can produce contentious outcomes. Chinese SOEs enter risky markets like 'rogue' states or disputed maritime areas, not because top leaders instruct them to, for 'geopolitical' gain, but because these profit-hungry firms are relative latecomers to international markets, and Western firms already dominate more stable territories (Christoffersen 2005: 69, Ye 2014). Apparent alignments with presumed 'grand strategy' are, on closer inspection, opportunistic attempts to harness corporate interests to vague central policies. For example, NOCs have pursued their hydrocarbon interests in the South China Sea by claiming (most dubiously) that this bolsters Chinese 'sovereignty', gaining support from the navy and Hainan province and deploying a massive oil rig in waters disputed with Vietnam in May 2014 (ICG 2016: 8). Similarly, consider the US$4.2 billion, 2,800 km Sino-Myanmar oil and gas pipeline, opened in 2015. CNPC and Yunnan province first proposed the project in 2003, but the NDRC rejected it as unfeasible. However, after President Hu expressed 'energy security' concerns in 2004, they repackaged their scheme as a solution to this problem, thereby securing NDRC approval in 2006 (Guo 2007: 59, ICG 2009: 20). Today, provincial governments and allied SOEs are similarly interpreting Xi Jinping's vague 'belt and road' proposal to grab resources and contracts, widening the scheme from an initial 18 provinces and 61 foreign countries to over 30 provinces and every country on earth (Summers 2016, Zeng 2017). 'State control' has not simply been 'lost' in such instances; rather, reflecting state transformation, it is being exercised in a way that permits enormous interpretive latitude.

Thirdly, however, particularly where free-wheeling SOE activity harms the interests or goals of significant state apparatuses, rival agencies may intensify their struggle to control SOEs. Here, we may expect agencies to deploy or strengthen regulatory tools, coordination mechanisms and/or authoritarian controls, to redirect SOE conduct. For example, following the aforementioned oil rig incident, the MFA, in league with the CCP Central Committee's International Liaison Department, struggled for primacy over military and commercial state apparatuses to rein in the NOCs responsible; the rig was withdrawn early and not deployed in contested wasters again (Long 2016). However, importantly, *contra* PAT approaches, the outcome of these struggles are contingent and may be partial; they do not necessarily 'restore' 'state control' around some new consensual goal. For example, in the Sudan case, MFA and MOFCOM action failed to change CNPC's behaviour. Nonetheless, it generated significant policy change *vis-à-vis* Sudan. Thus, there is no guarantee that the mechanisms of the Chinese-style regulatory state will be effective; they are just one move in an ongoing struggle for power and resources – which may, nonetheless, have significant policy consequences.

Case study: CPI's Myitsone dam project

This section further illustrates the utility of our theoretical framework using a case study of China Power Investment Corporation's (CPI) Myitsone hydropower dam project in Myanmar. Empirical data are drawn from two periods of fieldwork, including interviews with Myanmar government officials, political parties, NGO leaders and CPI staff, plus primary sources including party-state and company documents.

No single-case study can be representative or definitive; we make no such claims here. Rather, the case illustrates our contention that party-state/SOE relations reflect the dynamics described above: (1) governance is loose and regulatory; (2) SOEs have considerable latitude to interpret policy, permitting substantial divergence from what some in Beijing might prefer; (3) this can create diplomatic blowback, damaging wider Chinese interests; and (4) when this occurs, a power struggle may ensue, with actors deploying the Chinese-style regulatory state's mechanisms to rein SOEs in.

This case is a critical one, providing a good test of the 'arms of the state' thesis. CPI is in a strategic sector (energy), where top leaders' attention is supposedly focused (Norris 2016: 54), and it is centrally owned, avoiding the complication of decentralised ownership. The Irrawaddy Hydropower project, comprising seven dams (of which the Myitsone dam was one), is also a gargantuan project with massive state backing. CPI's total planned investment is over US$20 billion, over a third of Myanmar's GDP and double CPI's annual revenue (Wang 2011). CPI received extensive state aid and personal backing from Hu Jintao and Xi Jinping (see below). Moreover, Myanmar is a neighbouring country, lacking the 'geographical distance' that is also said to problematise SOE control (Gill and Reilly 2007: 44). Indeed, China considered Myanmar so strategically vital that bilateral relations were depicted as 'kinship' ties (Maung Aung Myoe 2011). Myanmar is often seen as: a locus of Sino-Indian, great-power rivalry; a Chinese bulwark against Western influence; providing China's navy with Indian Ocean access; and vital for China's 'energy security'. China provided over US$2 billion in weaponry to Myanmar's military regime (1988–2011), plus diplomatic cover at the United Nations, vetoing a US-led resolution on Myanmar in 2005. In return, Myanmar staunchly supported China in regional forums. For all these reasons, if the Chinese government could easily control SOEs for strategic purposes, we should observe this here.

Conversely, we show the following. First, reflecting the regulatory state model, CPI's expansion into Myanmar was largely profit-driven, not state-directed. Moreover, exploiting the loose regulatory state, CPI systematically flouted Chinese regulations, and seriously damaged bilateral relations. Myanmar suspended the Myitsone dam in 2011, causing a crisis in Sino-Myanmar ties that is still ongoing: investment collapsed from US$1.5 billion in 2010 to just $70 million in 2014 (ASEAN Secretariat 2015), and Chinese commentators widely stated that China had 'lost' Myanmar to the West (Sun 2012). Finally, Chinese party-state officials have moved to rein in CPI and similar SOEs, and have been forced to change China's Myanmar policy. Rather than being controlled for strategic gain, therefore, CPI's relatively autonomous antics caused serious strategic damage, which the regulatory state is now struggling to repair.

Going out: CPI's expansion into Myanmar

CPI's expansion into Myanmar was largely driven its interests and market conditions, not state instructions. Like many SOEs, CPI faced a domestic profit squeeze in the early 2000s, caused in its case by rising coal prices and electricity price controls, which rendered its power-generating arms loss-making (Liu 2008). Rebalancing from coal to domestic hydropower generation faced domestic barriers, including the exhaustion of suitable sites, growing societal opposition to mega-dams and frequent scandals caused by SOEs' violations of domestic regulations (He and Jiang 2010). Consequently, energy firms like CPI exploited China's 'going out' policy to move dam-building into less well-regulated neighbouring countries, particularly Myanmar and Laos, importing the power generated to Yunnan province.

CPI's most notorious project is the Myitsone dam in Myanmar's Kachin state. Home to one of Myanmar's major ethnic-minority groups, the Kachin, parts of this area are effectively ruled by the Kachin Independence Organisation (KIO), a rebel group that signed a ceasefire with Myanmar's military regime in 1994. Many Chinese firms rushed into this hitherto restive area to exploit untapped natural resources. CPI agreed its Irrawaddy River Hydropower Project with Myanmar's government in 2006, which was officially blessed through the Sino-Myanmar Framework Agreement on Hydropower Development Cooperation in March 2009. The project was intended to resolve CPI's profit squeeze by increasing its assets from RMB180 billion to RMB380 billion and boosting its generating capacity from 43,000 to 63,000 MW (Hu 2011, Li 2013, Zhu 2014).

Ignoring regulations to pursue profit

China's weak, fragmented governance structures allowed CPI systematically to ignore or subvert Chinese regulations in pursuit of this lucrative deal. We demonstrate this clearly below.[4]

Firstly, CPI ignored several risk management regulations. In 2005, China Export and Credit Insurance Corporation (CECIC), an agency under China's Finance Ministry, identified Myanmar as a serious investment risk, rating it eight on a nine-point scale (CECIC 2005). CECIC specified various measures companies should take to mitigate this risk, including purchasing CECIC insurance. CPI ignored this, failing to insure its investments at any stage (Yu 2012, Jiang 2013). This also violated SASAC's (2008) 'Interim Measures for the Liabilities of Central Enterprises for Asset Losses', which required due diligence from SOEs to avoid losses.

Secondly, CPI violated the requirement that SOEs must consult China's embassies in countries where they are considering projects (State Council 2008, MOFCOM 2009). According to China's ambassador to Myanmar, Yang Houlan, CPI only consulted his embassy after the Myitsone project was suspended (Mclaughlin 2013). This underscores the particular weakness of the MFA, which CPI clearly felt able to ignore entirely.

Thirdly, CPI violated several overlapping guidelines on environmental protection and the safeguarding of interstate relations. These were issued after 2006 in response to growing concern about SOE conduct (Gill and Reilly 2007: 48, Norris 2016: 80), but their violation illustrates our argument that efforts to tighten government control do not necessarily work. MOFCOM's 'Measures for Overseas Investment Management' require SOEs to undertake social and environmental impact assessments (EIAs) to ensure that projects do not damage China's foreign relations or violate international treaties (MOFCOM 2009). CCP Central Committee and State Council guidelines also require SOEs to consult experts and the public to ensure projects are feasible and acceptable (Xinhua 2010). Furthermore, a bilateral Sino-Myanmar treaty requires Chinese investors to respect the 'public interest' when implementing projects. Finally, in 2004, Premier Wen Jiabao had specifically instructed hydropower companies to improve public relations and foster consensus before implementing projects (Zhang 2010a).

China's fragmented regulatory state failed to stop CPI systematically violating these directives. Following NDRC recommendations, the State Council approved the Myitsone project in November 2008, well before the EIA was completed in March 2010. This again demonstrates that the existence of authoritarian controls does not equate to effective control or oversight; top-level procedures can simply be used to rubber-stamp the interests and agendas of lower-ranked agencies. CPI eventually commissioned an EIA from the Changjiang Institute of Survey, Planning, Design and Research (CISPDR), which effectively subcontracted the work to Myanmar's Biodiversity and Nature Conservation Association (BANCA). BANCA's preliminary report, hastily drafted in October 2009, concluded that while the damage caused by six Irrawaddy Project dams could be mitigated, those associated with the Myitsone dam could not. Hence, BANCA recommended scrapping the Myitsone megadam in favour of two smaller dams, plus additional mitigation efforts (BANCA 2009: 21, 25, 63, 227). CPI ignored this, starting construction in December 2009, three months before CISPDR had actually finalised the EIA. CPI also ignored increasingly vocal Kachin opposition to the Myitsone dam – apparent since 2004 – and falsely reported that BANCA had approved the project (International Rivers 2011).

Again, regulatory oversight was lacking. CPI's claims were not checked despite extremely high-level political involvement in Sino-Myanmar hydropower development. This included the Framework Agreement on Joint Development of Hydropower Resources in Myanmar, which explicitly supported CPI's Irrawaddy Project, witnessed in March 2009 by Politburo Standing Committee member Li Changchun; the Agreement on Joint Ventures in Southeast Asian Hydropower Projects, witnessed in December 2009 by then Vice-President Xi Jinping; and the Joint Venture Agreement on the Development of Chipwi and Laza Hydropower Projects, witnessed in June 2010 by Premier Wen Jiabao (CPI 2009, 2010, Myanmar News Agency 2009).

CPI continued to violate rules even as Chinese regulators recognised the growing danger. MOFCOM's 'Notice on Issuing Overseas Security Risk Early Warning and Information Release System on Foreign Investment Cooperation' (2010) requires SOEs to minimise risks and losses if warned by MOFCOM (MOFCOM 2010). In June 2011, MOFCOM explicitly warned CPI that rising societal opposition in Myanmar could lead to the company being targeted by the country's government. CPI ignored the warning (Jiang 2012). Nonetheless, MOFCOM did not suspend the project, as it is empowered to do when due-diligence rules are violated (MOFCOM 2009).

Thus, a leading SOE, pursuing profit with reckless disregard for China's wider 'national interests', systematically violated Chinese regulations on overseas investments. Reflecting the Chinese state's fragmentation and uneven internationalisation, oversight within the Chinese-style regulatory state was weak and ineffective, despite the presence of authoritarian controls.

Consequences: disaster for China's Myanmar policy

The Myitsone dam was hardly the only irritant in Sino-Myanmar relations. Since the early 1990s, Myanmar's military junta had courted extensive Chinese investment in mining, logging, hydrocarbons and hydropower, which was heavily concentrated in Kachin and neighbouring Shan state, both home to ethnic-minority resistance groups. While investors, senior generals and ethnic-minority ceasefire group leaders profited from this 'ceasefire capitalism' (Woods 2011), most people did not, instead enduring environmental devastation, forced displacement and militarisation. Perceived high levels of Chinese immigration also fuelled Sinophobia well beyond the borderlands. Myitsone was the spectacular *coup de grace*, following two decades of scantly regulated internationalisation by Chinese state-owned and private enterprises.

Nonetheless, Myitsone emblematised this process and had particularly powerful consequences. For several years before 2011, popular Kachin resentment had been building into a youth resistance movement, mobilising around environmental protection, especially the Myitsone dam (Kiik 2016). Since 2004, Kachin activists had protested that the site was sacred and the associated destruction of homes and livelihoods was unacceptable (Kachin Development Networking Group 2007: 11, 14–15, 23–35).[5] This movement gradually became part of a powerbase for a group of mid-ranking Kachin Independence Army (KIA) officers disillusioned with their co-opted leaders and seeking to revitalise the KIO. In 2009, as part of its transition to a constitutional regime, Myanmar's government sought to convert armed ethnic-minority groups into 'border guard forces' under army command. Several resisted, causing renewed fighting, including in Kachin state. The KIA's 'young Turks' seized control of the KIO/KIA, re-launching its anti-government insurgency (Brenner 2015). Opposition to the Myitsone dam thus contributed indirectly but significantly to renewed civil war in Myanmar. Ethnic-majority Bamar environmentalists also joined the Kachin in opposing Myitsone, forcing its suspension in September 2011 (Kiik 2016).

This had dire consequences for Sino-Myanmar relations, severely damaging the interests of many economic and bureaucratic actors. First, Chinese investment plummeted from US$1.5 billion in 2010 (68 per cent of Myanmar's total inward foreign investment) to just US$70.5 million in 2014 (7 per cent) (ASEAN Secretariat 2015). Secondly, the renewed Kachin insurgency caused serious problems:

military conflict threatened CNPC's oil and gas pipeline, and tens of thousands of refugees fled to China, where the Kachin have ethnic kinsfolk, causing severe problems for local authorities. Thirdly, Chinese analysts widely saw the suspension as a strategic disaster for China's 'peaceful rise' (Sun 2012). Thus, far from being a loyal 'arm of the state', dutifully implementing a 'grand strategy', CPI had clearly undermined two decades of diplomacy and cooperation designed to cultivate a bulwark to China's west.

The reaction: renewed power struggles within the Chinese state

This outcome prompted a struggle within the Chinese regulatory state, with central agencies seeking to rein in CPI and recentralise control over bilateral relations. First, the MFA was forced to try to clear up the diplomatic mess CPI had made, prompting major changes in Chinese foreign policy. Secondly, regulatory agencies issued new regulations on overseas investments. Thirdly, party-state agencies cracked down on CPI. Fourth, other Chinese enterprises have had to substantially alter their business practices in Myanmar.

As so often, the MFA was left carrying the can for an SOE's autonomous actions. Initially, reflecting ignorance of CPI's conduct, the MFA's spokesperson insisted the project had undergone proper scientific scrutiny, urging Myanmar to respect CPI's 'legitimate rights and interests' (*People's Daily* 2011). However, repeated bilateral talks have failed to restart the Myitsone project, and the MFA's focus has subsequently switched to stabilising the unrest that CPI helped to cause. This has involved abandoning China's longstanding policy of non-interference in Myanmar and intervening to encourage a peace settlement (ICG 2013, Sun 2013). The MFA brokered the first-ever multiparty peace talks between the KIO and Myanmar's government in February 2013, leading to a Chinese and UN-backed truce in May 2013. Beijing has since remained involved in Myanmar's wider peace process, reportedly intervening to scupper a so-called 'national ceasefire agreement' in 2015 because it excluded crucial groups along the Chinese border (Wee 2015). More recently, China has met openly with rebel groups to promote peace talks. These measures may have helped to stabilise the borderlands and safeguard Chinese investments, but they have also made China even more unpopular with Myanmar officials. The MFA's reaction also shows that SOEs' autonomous behaviour does not merely undermine official government policy; it may also prompt it to change, sometimes quite dramatically.

Secondly, China's commercial bureaucrats have again tightened their regulatory state apparatuses in an attempt to prevent similar disasters. SASAC issued new 'Interim Measures for the Supervision and Administration of Overseas Investment of Central Enterprises' (2012), while MOFCOM published an 'Environmental Conservation Guide for Overseas Investment and Cooperation' (2013). These regulations instruct SOEs to adhere to international best practices in implementing EIAs, support host countries' sustainable development and respect local religions and customs. The NDRC also issued new 'Measures for the Administration of Confirmation and Recordation of Overseas Investment Projects' (2014), and MOFCOM updated its 'Measures for Overseas Investment Management' (2014). These documents clarified previously fuzzy rules, making SOE managers liable for prosecution for regulatory violations. Whether this will substantially alter SOE conduct remains to be seen. Our case clearly shows that the last round of regulatory tightening, after 2006, was ineffective. Thus, rather than a decisive step, this move is best seen as part of an ongoing struggle within China's transformed, regulatory state.

Thirdly, the party-state cracked down on CPI. A National Audit Office investigation identified colossal regulatory non-compliance at CPI. Among other irregularities, it identified 131 investment projects from 2008 to 2013, worth RMB119.6 billion in total, where CPI 'began construction with incomplete procedures or started production illegally' (National Audit Office 2015). The CCDI also inspected CPI, identifying 57 problems, including the disobeying of government regulations on investment (CCDI 2015b). The CCDI, the CCP's Organisation Department and SASAC subsequently launched further investigations, which could lead to prosecutions (Observer 2015). The CCDI found that CPI had failed to discipline malfeasant staff using CCP strictures, and had scapegoated low-ranking employees rather than punishing responsible decision-makers (CCDI 2015a).

This crackdown ended the careers of a few top CPI managers. Qizhou Lu, CPI's general manager and CCP branch secretary, publicly confessed his mistakes and retired from CPI in 2015. Lu's CCP career also ended, as he was not promoted from his position in the Chinese People's Political Consultative Conference, unlike other SOE managers, for whom this body is a stepping-stone to higher positions. Li Guanghua, general manager and CCP secretary at CPI's Yunnan branch, which oversaw the Irrawaddy Project, was also demoted by one rank and eventually side-lined into CPI's headquarters (CPI Yunnan 2013, 2015). His deputy, Mao Guoquan, was also removed (CPI Yunnan 2012). This was not particularly harsh treatment for individuals responsible for such colossal malfeasance. Indeed, it reflects wider evidence that even fabulously corrupt SOE managers are rarely punished and their sentences are typically lighter than those of junior officials (Pei 2016: 3, 5). Again, this suggests that even the CCP's authoritarian controls lack the 'bite' supposed by 'arms of the state' accounts.

Fourth, the Myitsone imbroglio has prompted significant changes in the conduct of Chinese SOEs in Myanmar, especially hydropower companies. The crisis in Sino-Myanmar relations apparently convinced party-state and SOE officials that, in Myanmar's post-dictatorship era, their interests can no longer be secured through cosy backroom deals between ceasefire, military and business elites. China's embassy has launched an unprecedented public diplomacy campaign, while hydropower companies have developed corporate social responsibility programmes and are taking EIAs more seriously (Kirchherr *et al.* 2017). Chinese firms are starting from an extremely low base, but they are on a sharp learning curve.

Conclusion

This article has analysed the role played by SOEs in China's rise to great-power status. This role is sharply debated between those who see SOEs as 'arms of the state', implementing Beijing's 'grand strategy', and those depicting SOEs as autonomous, market-facing actors. The debate is polarised because there is partial evidence for both theses, though neither quite captures the true nature of party-state/SOE relations. We argued that we can best make sense of the contradictory evidence by using the concepts of regulatory statehood and state transformation – the contested and uneven fragmentation, decentralisation and internationalisation of state apparatuses. The first concept helps identify the emergence of a Chinese-style regulatory state, whereby central control over SOEs has not simply declined, but has also shifted into a regulatory mode. The second concept helps us understand why this governance approach often yields outcomes contrary to those intended by top Chinese leaders. The dispersal of power and authority to diverse, cross-cutting agencies – reflecting factional struggles and compromises – makes governance structures confused, overlapping and conflict-ridden. This conceptualisation recognises that SOEs do, indeed, have considerable power and autonomy to pursue profit-making activities and are very weakly regulated. However, it also highlights how other parts of the party-state may also strive to control SOE activities where their interests are at stake. Thus, party-state/SOE relations are best understood in terms of an evolving struggle within a transformed, multilevel governance structure.

This analysis modifies the 'market-driven' thesis by offering a more precise and more fully theorised understanding of state/SOE relations, but clearly the 'arms-of-the-state' thesis is found most wanting. Chinese SOEs are not implementing a coherent Chinese 'grand strategy' of extending Chinese political influence and eroding the West's. China's SOEs are expanding abroad primarily due to domestic overcapacity, surplus capital and domestic profit squeezes. They are very loosely guided by thin regulatory frameworks. The only 'grand strategy' here is the CCP's general concern to facilitate capital accumulation and economic growth to maintain social stability and perpetuate CCP rule. This provides a highly permissive environment for SOEs to enter global markets as profit-driven actors with scant regard for broader 'national' interests. Indeed, the governance structures overseeing

SOEs are so fragmented, decentralised and weakly internationalised that the Chinese leadership would have real difficulty forcing them to implement a more coherent and purposive 'grand strategy', even if they could formulate one. Conversely, the fragmented, regulatory state allows SOEs to behave in ways that clearly undermine wider foreign-policy goals, contrary to the 'arms of the state' thesis. Additional research using this framework could usefully identify when and why this occurs or does not occur. However, for our purposes, it is clear that, far from directing SOE activity, the MFA and other top-level agencies are often ignorant of it, and must scramble to repair international relations when scandals emerge. Even then, they often seek to protect SOE interests, as our case study and Tunsjø's (2013: ch.4) evidence from Sudan and Iran shows. Apparently only in the most extreme cases, such as the Myitsone example, when SOEs have direct and extremely negative impacts on foreign relations, are there significant consequences for SOE managers – and even then they were not particularly severe. Our findings thus support the view of China as a fragmented and incoherent 'rising power', not one comprehensively directed by a single grand strategy (Hameiri and Jones 2016).

Notes

1. CPI merged with the State Nuclear Power Technology Company in July 2015, becoming the State Power Investment Corporation. For consistency, we refer continuously to CPI.
2. The following list draws on: Lieberthal (2004: 178–9, 181–3); Pearson (2005: 302–12); Tunsjø (2013: ch.3); Lai and Kang (2014: 302–3); and Breslin and Wang (2016: 19–26).
3. For example, Shanghai Automotive Industry Corporation, owned by Shanghai's provincial-level city government, is a multinational corporation, with a turnover of US$101.7bn in 2014. Hai'er, owned by Qingdao city, has the world's largest market share in white goods.
4. This advances on existing literature, which implies but does not actually show that SOEs violate government regulations (e.g. Gill and Reilly 2007).
5. This underscores that much of the blame for the fiasco must obviously be attributed to Myanmar's military elites, who sought many Chinese extractive and hydropower investments to help sustain and enrich themselves, ignoring both societal opposition and Myanmar's own environmental laws.

Disclosure statement

No potential conflict of interest was reported by the authors.

Funding

This work was supported by Australian Research Council [grant number DP1701102647]; Shenzhen University [grant number 16QNFC18]; China National Social Science Fund [grant number 15@ZH009].

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