

Yuan Li

CHINA'S CAPITALIST TRANSFORMATION

THE RHETORIC THAT MATTERED



BUSINESS & ECONOMICS

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The rhetoric that mattered

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Preface and Acknowledgments

This book is an organization theoretician's investigation of China's transformation as a case of institutional change, strategic leadership, and organizational decoupling. For the past 50 years, Western observers have produced voluminous work on China's colossal effort to reform its economy and renew the system. However, most work on China's reform has come from the disciplines of economics, political science, sociology, anthropology, and communications, while few have looked at the reform from an organizational and management perspective. Studies from the organizations and management discipline almost never focus on China as the topic. In microlevel organizational behavior research, the Chinese context is largely irrelevant or is factored in as a unique cultural dimension featuring traditional Chinese values, while in macrolevel strategy and organization research, the Chinese context is often categorized as a case of developing or non-Western countries and tapped into for its institutional deficiencies relative to developed or Western countries. This book is unique in that it directly tackles the China experience as economists and political scientists do; however, my purpose in studying the macrolevel structural transformation of the entire country is to generate knowledge relevant to organization and management.

So, in what way is China important for our understanding of organization and management? China's transformation certainly defies conventional wisdom. It was widely believed that adopting capitalism meant adopting both liberal markets and democratic institutions, but China's case shows that capitalism can thrive under a one-party rule. Many thought that a capitalist transformation needed to happen all at once in a sudden and drastic way to shock the system into a new mode, yet China's experience shows that gradual and piecemeal changes have many unexpected benefits. Many assumed that change is most desirable when the top leaders are unequivocal in articulating their strategic vision and faithfully implement that vision without deviation; however, China's story is full of ambiguous if not deliberately oxymoronic messages and implementations that are incoherent and disconnected. The conventional wisdom extols completeness, purity, and tight coordination in prescribing successful models of change, but China's change is characterized by partialness, hybridity, and loose coupling. The unconventional nature of China's case and its relative success beg the question of how change unfolded in China and what the case of China tells us about managing and changing an organization in general.

My overall purpose in studying China's transformation is to use it as an analogy for organizations. After all, democracy does not exist in corporations, yet it is undeniable that the research and writing about leadership serve to justify this undemocratic structure of organizations. There are no democratic elections of executives by employees. In fact, many organizations are run as top-down corridors of power in which each level of managers can promote, demote, or fire any employee at any time. Authority and decision-making are centralized at the top, and there is little accountability except when those at the top are caught for egregious violations of law. Managerialist ideology trumps

differences between cultures and institutions. Managers at all levels of any organization in any country can mismanage and engage in self-serving behaviors that sabotage the integrity and health of the organization. In a sense, China is run very much like a corporation, and all organizations are run very much like a miniature China.

Researchers typically do not have great access to large corporations to learn their inner workings. Even if they manage to obtain permission to interview, observe, and examine documents, they rarely acquire the entire picture of the organization, especially regarding the minds of its top leaders. In contrast, China's politics and reform have been well documented in official proclamations, memoirs, biographies, media coverage, and secondary historical accounts. We know a lot about each individual elite and their political orientations, positions, and networks, and we know a lot about significant events and their contexts, conflicts, and impacts. If we conceive of China as a large, complex organization, then the case of China provides us with unprecedented comprehensive and transparent data.

Such data are most interesting for understanding the role of rhetoric in organizing and change. China is a fascinating example because what the Chinese Communist Party (CCP) says about organizing and change is at once both most serious and most malleable. It is most serious because, for whatever it is worth, the Chinese culture places great emphasis on discursive legitimation. As a famous Confucian saying goes, "If the name is not rectified, words will not be logical. If words are not logical, things cannot be carried on to success" (名不正则言不顺, 言不顺则事不成). Rectification of the name refers to a correct correspondence between rhetoric and reality and, more specifically, means that a leader who has an adequate reputation and the appropriate status is justified to say and do things. Consistent with this belief, the CCP cultivates the brightest minds to be party theorists who do "theoretical work" for party building, and it involves all levels of party cadres in "ideological and political work" to indoctrinate members with unified values. The CCP has produced very creative advancements in theories that have adapted to the rapidly evolving economic and social conditions. There is no doubt that, to the CCP, it is paramount to get names and words right and in accordance with the changing reality.

However, what the CCP says is also extremely malleable. As a reference, the United States has never changed its founding document, the Declaration of Independence. It has made 27 amendments to its constitution for the almost 250 years since it first rectified the document. China has rectified four versions of its constitution, in 1954, 1975, 1978, and 1982, and it has made 52 amendments in the 40 years since the 1982 version. Furthermore, the CCP has amended the party's constitution every five years through the party's national congress. The fact that China frequently modifies its founding constitutional documents indicates that China has a different conception of the relationship between the constitution and reality. Rather than viewing the language of the constitution as comprising unalterable facts and truth, China views its

constitution as a work in progress and a narrative of people, events, and political ideologies that give significance to and legitimize the changing system and the party.

First and foremost, legitimizing the CCP means theorizing its role as a revolutionary party, which necessitates language that is explicitly critical and political: The Chinese constitution includes phrases such as “imperialism,” “hegemonism,” “colonialism,” “crony capitalism,” and “exploitation.” The language in the constitution has alternated between more and less leftist ideologies based on the power struggles between political and ideological factions within the party. As Chinese society has become more like a Western society with more stratified social classes and differentiated interest groups, the CCP has transformed its own identity from a revolutionary party to a governing party. While retaining its revolutionary vocabulary, the CCP has incorporated theoretical ideas of post-Mao party leaders and new institutions of the economic reform such as “socialism with Chinese characteristics” (中国特色社会主义), “initial stage of socialism” (社会主义初级阶段), “socialist market economy” (社会主义市场经济), and “non-public ownership economy” (非公有制经济) into its constitution. These ideological and institutional innovations are broad and ambiguous and are designed to be understood in many ways, leaving ample space for actions both left and right.

However, despite the rhetoric of the elites, isn't China's miracle just as much the creation of its people? From the 18 peasants in Anhui province who secretly signed an agreement in 1978 to contract collectively owned land in violation of the law and thus began the rural reform, to numerous entrepreneurs who seized on opportunities to start businesses and create markets despite often operating in grey areas and risking legal transgressions, and, just as importantly, to the more than one billion people who strive for a better life regardless of the party's ideology, it is the people who have undoubtedly been the drivers of China's transformation. However, just as in any other organization, although those who work at the front line often know what to do, their efforts toward change can be lost in the hierarchical system, bogged down by red tape, or sacrificed in power struggles at the top, where the CEOs pursue their own self-interest at the expense of the interests of stakeholders and engage in empire building without benefiting the company. The problems that China has faced are in this sense no different from the problems that any organization may face, and because the CCP as the strategic leader of China Inc. is like the CEO of a company, its language clearly merits close attention and examination.

The analogy of China as a corporation and the CCP as its strategic leader has another benefit: It provides an opportunity to jointly study strategic leadership and institutional change. Studies of strategic leadership tend to take as their starting point the fact that companies can acquire competitive advantages through strategic actions. In contrast, studies of institutional change often assume that changes in institutions are unintended consequences that result from broader shifts in cultural models that are under no one's control. In China's transformation, the CCP's strategic leadership is instrumental to changes in the institutions, and the institutional context fundamentally shifts the CCP's strategic choices. The case of China's transformation makes it abun-

dantly clear that strategy is institutionally conditioned and that institutions also have agency.

The book is a collection of academic articles with a common theme. Chapter 1 introduces institutionalism and rhetoric as theoretical lenses for examining China's capitalist transformation as a case of organizational change. Chapter 2 reviews the main theoretical accounts of China's transformation and lays out the rhetorical agency of elite-led change and the rhetorical requirements for such agency to be effective. Chapters 3–6 are standalone papers that focus on different but related topics. Chapter 3, co-authored with Roy Suddaby, looks at the high-level theoretical innovations of the CCP that justify the adoption of capitalism. Chapter 4, co-authored with Sandy Green and Paul Hirsch and previously published in the *Journal of Management Inquiry*, examines the rhetoric about the stock market in the CCP's main newspaper. Chapter 5, co-authored with Paul Hirsch, analyzes the controversies of elite intellectuals regarding key market reforms. Chapter 6 turns to the explosive growth of the private equity industry during the more recent decade and explores how the industry has been redefined and redeployed.

Together, these chapters make a case for the role of rhetoric in strategic and institutional change. No change happens without rhetoric, but most people believe that change is what matters and ignore the rhetoric that accompanies the change. To be sure, a lot of rhetoric is indeed negligible, which is why rhetoric has earned a poor reputation as being insignificant, or even worse, a distortion of reality. But we are far from understanding how rhetoric matters, that is, how it intertwines and interacts with materiality to generate what we see as real. We can only gain that understanding by separating rhetoric from materiality, as much as possible, and then putting it back into the equation to see its effects. China's transformation provides a rare and extreme opportunity to do this because the rhetoric and the materiality of change are only loosely coupled and are therefore easy to separate analytically. This book is one of the first projects that attempts to disentangle rhetoric from materiality in order to examine their relationships and co-evolution.

Many helping hands have made this book possible. I would like to thank my parents for always valuing my vocation and doing everything they could, always with grace and wisdom, to help me make my way through life and deal with many of its exigencies. This book has benefited from countless conversations with my husband, who lived through the Cultural Revolution and was part of the intellectual milieu that shaped the vibrant culture of the country in the early reform era. I also wish to thank my son, whose curiosity and Gen-Z consciousness have certainly pushed my thinking. Moreover, this book would not have been possible without my mentors Sandy Green, who inspired me to appreciate the fascinating field of rhetoric, and Paul Adler, who inspired me to become an organization theorist. Although my career as a business academic has for the most part been occupied with publishing journal articles, many years ago the great rhetorician Thomas Goodnight planted the seeds that made me want to publish this collection as a book, and for that I am grateful. I am also grateful to the

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Chapter 1

Institutions, Rhetoric, and China

China and Neo-institutional Theory

Chinese intellectuals like to blame things on institutions. After all, Chinese people are industrious, prudent, and entrepreneurial. Yet modern Chinese history since the opium war has been characterized by one humiliation after another, and although the founding of communist China gave the country independence, it came at the cost of being self-isolated from the world and having a poor economy. What went wrong? It is commonly believed in China that the country's institutions are the problem.

Neo-institutional theory is a form of organization theory that specifically examines institutions and therefore seems extremely fitting for the study of China. Now known as organizational institutionalism, the theory has undergone several stages of development since its inception in the late 1970s and has grown to become one of the dominant paradigms in organization and management research. The theory has several core components. First, it is concerned with the diffusion of ideas and practices. It observes that many managerial practices, such as total quality management and diversity management, and a slew of corporate positions, such as Chief Human Resource Officer, Chief Culture Officer, Chief Information Officer, and Chief Data Officer, are adopted across industries and sectors. It posits that such wide adoption of corporate practices and structures is driven by a need to be similar to others in a field of actors who are uncertain about what to do.

Given this context, neo-institutional theory says that actors adopt popular ideas and practices to obtain legitimacy. "Legitimacy" is a central term in neo-institutionalism and has been theorized by many distinguished researchers, but the most interesting form of legitimacy is cognitive legitimacy, which refers to a state of mind that takes something for granted. By definition, being taken for granted means that the actor is no longer capable of questioning why such a belief exists in the first place. In early theorizing, legitimacy was something that only needed to be satisfied by organizations in highly institutionalized environments, such as education, healthcare, and highly regulated industries; however, in later theorizing, legitimacy became something that every industry and every company strives for. Legitimacy is conceptualized as a process and a variable with different degrees of taken-for-grantedness and, in this sense, is like the concept of institutionalization.

Another central concept of neo-institutional theory is decoupling. To appear legitimate, organizations that adopt popular practices and structures tend to decouple what they adopt from their day-to-day core operations. As an example, teachers can teach however they like; as long as they adopt a curriculum and the pedagogical devices of a teacher and are in a classroom with a bunch of students during regular time intervals, they are performing the role of a "teacher" and hence are doing the institu-

tionalized activity of “teaching.” In a similar vein, organizations seek certification and accreditation and participate in standardization and auditing activities, but they do not let these rules and policies disrupt how they actually do things internally. Recently, for example, in response to societal expectations of responsibility and sustainability, corporations have produced numerous Corporate Social Responsibility (CSR) reports and engaged in Environmental, Social, and Governance (ESG) auditing; however, many observers worry that this is yet another fad that makes corporations look good but does not really change things.

The thesis of decoupling gradually lost steam in the literature, perhaps because it turned out that many organizations do take these adopted policies and structures seriously and use them to change their own practices. Some scholars have observed that by proclaiming their commitment to CSR or ESG, organizations oblige themselves to move in that direction because they are now held accountable by stakeholders. The lip service that organizations pay seems to compel them to do some good after all: The demands to become accountable and transparent have certainly pushed companies to implement what they adopt. Additionally, some scholars have observed that increasingly more organizations faithfully implement the policies that they formulate but that these policies do not achieve their intended goals because it is difficult to measure the effects of implementations and outcomes.

Looking at China’s market transformation through the lens of organizational institutionalism confirms the hunches of Chinese intellectuals that institutions are indeed the problem. China has been adopting Western liberal market institutions and has shown great vitality by doing so; any problems that remain are probably due to the incompleteness of adoption and implementation. But the case of China is also unique because it is a reversal of some of the core arguments of neo-institutional theory. China’s adoption of liberal market regimes is the opposite of what is typically done in an organization. Typically, as neo-institutional theory posits, an organization adopts rules and policies but does not implement them. In contrast, although China did not want to say out loud that it had adopted a liberal market economy, it in fact implemented many liberal market policies. Furthermore, neo-institutional theory posits that even when organizations implement policies, these policies do not achieve their intended goals because the goals were opaque. In contrast, China was opaque about the means of doing things but was not opaque about measuring and showing the outcomes. This is well exemplified in Deng Xiaoping’s famous saying: “No matter if it is a white cat or a black cat, a cat that can catch rats is a good cat!” So there was certainly decoupling in China, but just not in the ways neo-institutional theory has entertained.

Organizational institutionalism implicitly holds that although decoupling may be functional, it is not ideal. A more desirable situation would be the faithful adoption and implementation of a policy along with assurance that the implementation achieves the intended outcomes. Indeed, when the Soviet Union adopted and implemented the Western market and governance systems in a swift and sweeping way, Chinese intellectuals admired the internal coherence of such an institutional change. Compared to the Soviet

Union, China's adoption of a Western market has been piecemeal and extremely slow, yet its outcomes have exceeded those of transition economies that attempted a more tightly coupled adoption and implementation of market reforms.

For example, many naysayers about China have turned out to be wrong. Thirty years ago, many were doubtful that Chinese people would ever use credit cards because both the scholars and the Chinese people believed that Chinese citizens could not be trusted to use the credit system. Twenty years ago, many did not believe that online shopping would be popular in China because neither the scholars nor the Chinese people anticipated the rapid rise of mobile phone use and the phenomenal growth of internet giants such as Baidu, Alibaba, and Tencent, together known as the BAT. Ten years ago, many did not foresee that China would be producing so many unicorns, that is, start-up companies valued over \$1 billion, because the scholars as well as the Chinese people lacked confidence in entrepreneurs' ability to innovate and compete globally. Yet these and many other astonishing outcomes, such as the widespread use of mobile phone payment systems like WeChat pay or Alipay with no transaction costs, were accomplished.

If China had adopted and implemented Western liberal market regimes more faithfully, would China's reform have been even more successful? This is a hypothetical situation that neo-institutional theory would say is impossible in practice. The theory would posit that numerous forces would cause the neoliberalist ideology with its complex system of institutional structures to become decoupled when adopted in a completely different institutional context. Furthermore, adoption is not just about doing what the West does, but also about translating the system of ideas that support those policies and rules. As the Scandinavian stream of neo-institutional literature tells us, when ideas travel across contexts, they inevitably acquire new meaning and are interpreted differently. Even a simple idea like shareholder value maximization can become contested when it travels from the United States to other Western countries, so it is no wonder that a complex ideology like neoliberalism can be met with dynamic and complex recontextualization when it journeys to China. The Scandinavian translation school of neo-institutional theory suggests that decoupling is not just between policy and practice or between means and ends but also involves the processes of meaning. In several management articles I have argued that decoupling takes many forms, and the often ignored but most important forms of decoupling are between what people say and what they mean and between a thing's original meaning and its recontextualized meaning. Given this lens, I believe that the real question that stems from the case of China is *how to manage decoupling amid institutional change*.

Newer streams of neo-institutional theory have indeed turned their attention to the question of institutional change. First, there is the literature on institutional entrepreneurship. The idea originated in the late 1980s and blossomed in the early 2000s. The "entrepreneurship" analogy confers the theory with an unprecedented sense of agency. Institutional entrepreneurs are actors who seize on institutional voids and op-

portunities to make change. Then there is the literature on institutional work, which began in the mid-2000s and grew to become a dominant perspective that is especially suitable for explicating microlevel institutional processes and mechanisms. The construct of “work” redirects the theoretical focus from heroic actors and high-profile actions to everyday actors and mundane actions. Institutions are no longer conceptualized as structures that self-perpetuate, but rather as ongoing accomplishments of intentional efforts directed at creating, maintaining, or disrupting institutionalized systems. Finally, there is the literature on institutional logics, which began with pioneering work in 1990 and was subsequently supercharged to become a school of thought that dominates the macrolevel investigations of field dynamics and change. An institutional field may be governed by multiple and even competing institutional logics, such as the logics of market, profession, community, religion, family, and state, and the frictions between logics can become the impetus for change.

In China, the institutional entrepreneurs are elite politicians, intellectuals, journalists, and more recently, business magnates. The institutional work involves all Chinese people, whether they support, resist, or are indifferent about the change. There are definitely multiple and at times intensely contradictory institutional logics. But more importantly, as described above, China’s change is marked by many forms of decoupling, especially those involving meaning. In fact, the core puzzle of China’s transformation has to do with the decoupling of meaning: *How do Chinese elites create rhetorical fidelity and credibility when there is apparent incompatibility between the communist ideology upheld by the party and the willingly adopted capitalism?* Unfortunately, neo-institutional theory alone cannot disentangle these forms of decoupling because the theory does not have a vocabulary for analyzing meaning; hence the need to look at the institutional transformation of China from a rhetorical perspective.

China and Rhetoric

Rhetoric is an ancient discipline in Western civilization. It has been revived multiple times throughout history and has been picked up by many renowned philosophers in modern and contemporary thought. The discipline of rhetoric has a large body of knowledge, including the techniques, skills, and frameworks that make a rhetor more articulate and persuasive in communication. In ancient China, rhetoric was considered an important skill: The ability to write well was tested in the Imperial Examination, the route to becoming a government official, and serving as a government official was the most valued and high-status vocation in the Chinese culture. During China’s transformation, the need for persuasion has become massive. The flow of arguments goes in every direction, from peasants to governments, from intellectuals to the media, from provincial leaders to the Polit Bureau, and from the Polit Bureau to rank-and-file party members. There have been agreements, and there have been contestations. Interestingly, disagreements have rarely deterred action. The Chinese peo-

ple have continued to make changes despite lacking justifications, as if they know that some kind of theoretical innovations will be invented to back their actions.

I resort to rhetoric not just because of the techniques of persuasion and exposition, but also because it is part of the philosophical orientation informed by the linguistic turn. As one of the most significant philosophical movements in the twentieth century, the linguistic turn has shaken some of the fundamental assumptions in ontology and epistemology. The movement discovered that language, which was once seen as a tool for communication, a representation of external reality and internal thought, has much more “agency” of its own. It found that the relationships between words and their meanings are not naturally predetermined, but are arbitrary, based on conventions. It was found that there is not a universal and a priori set of meaning systems, and that any system of meaning exists only in relation to a particular set of words. Because words and their meanings are bound together in specific contexts, the possibility of decoupling is abundant. In fact, it is rare for a word to never be decoupled from its literal meaning. The art of rhetoric is often about wrenching a word loose from its original meaning and placing it in a different context to generate new meaning. Because of these qualities of language, managing meaning is not as simple as operating a tool. Far from it: Those who try to manage meaning often end up being surprised by how meaning escaped from their management.

Language as a system of signs turns out to be an integral part of being and an indispensable part of knowing. To use rhetoric is to engage in creating social reality and in understanding such creation. A rhetorical institutional perspective therefore extends neo-institutional theory’s phenomenological roots and its social constructionist tradition to the realm of strong constructivist and post-structuralist onto-epistemology. In this realm, language is constitutive of institutions and is their primary manifestation. A fully institutionalized rule is just a rule about which people have forgotten that they were once persuaded to believe in it and instead take it as a given, a self-evident truth. Few institutions are fully taken for granted, which means that, at least for some people, there is space for doubt, denial, negotiation, or resistance. For almost every institution, there are people who blindly take it for granted, those who keep advocating for its legitimacy, those who have doubts or hesitations, and those who reject and resist its premises. Therefore, for almost every institution, rhetoric is used by a heterogenous group of institutional entrepreneurs and average people to construct its legitimacy. Rhetoric thus plays a central role in making institutions more or less legitimate in the eyes of their beholders.

From the rhetorical institutional perspective, the three pillars of an institution may be misaligned or even in conflict: The regulative pillar may be buttressed by coercive measures but not be self-evident to people’s cultural and cognitive understandings, the normative pillar may be sanctioned by professional principles and standards but a violation of professional norms may not be illegal, and the cognitive pillar of the deeply held premises of some people may actually run counter to the law. Rhetoric

constructs reality and truth claims and enables people to navigate the fractures between the regulative, normative, and cognitive pillars of institutions.

Institutions endure because of the simultaneous forces of material coercion and symbolic influence. Rhetoric is the least coercive when we understand it as good arguments. However, although rhetoric is often in sync with the direction of coercive power it can also undermine coercion when good arguments conflict with coercion. Ultimately, rhetoric shifts institutions by altering the cognitive pillar, which then shapes the normative pillar and can lead to changes in the regulative pillar. But since the cognitive pillar of institutions is in the realm of the subconscious or even the unconscious, it is impossible to change it overnight. This goes back to the decoupling thesis: You can change people's behaviors, and even what they say, but it is harder to change what they think or what they mean. Rhetoric provides the analytical toolkit for assessing what people mean when they say what they say. Through rhetoric, we can finally dissect an institution's multiple pillars and examine the decoupling between saying and meaning and between the original meaning and the recontextualized meaning.

Such an endeavor is critical to understanding China's transformation. Like individuals, institutions have "minds" and can "think." Social scientists studying China's transformation tend to ignore how such minds work. They tend to assume that there is no way to assess an institution's mind and there is no utility in understanding this mind. They tend to believe that institutions can be fully understood by analyzing observable behaviors, structures, and outcomes. They tend to forget that institutions are inhabited by people who have desires, motives, intentionality, emotional wants, spiritual callings, and culture and traditions, just like everyone else (Li, 2023). Granted, it is a lot messier to try to gauge people's intended meanings and how institutions think, but how can one explain the strategic choices that China made without analyzing the Chinese mind? This book is arguably the first to try to do just that. It looks at how Chinese elites—politicians, intellectuals, journalists, and more recently, trade media—talk about the transformation in their own words. When these words are juxtaposed with structural changes, we can reasonably gauge the Chinese thought process. Through this exercise, not only can we explicate the unique styles of the Chinese rhetoric—theoretical, ironic, and abstruse; we can also uncover the elite dynamics in China's political processes, the relationship between the state and the people, and the shifts in the dominant ideology over time.

Understanding how institutions make and use meaning is also useful for management and organization theory in general. Organization theory deals with many dualities and paradoxes that are rooted in the fundamental tension between the individual as a person and the organization as an institution. These dualities and paradoxes are unresolvable and can best be dealt with as a dynamic and ongoing balancing act. Central to such balancing is the management of decoupling: decoupled ideas, rules, policies, structures, strategies, activities, roles, events, and processes. I venture the observation that many management problems originate in the assumption that things

must be coherent and coupled. However, the pursuit of coupling is fundamentally futile and often dysfunctional. The secret of managing is perhaps accepting decoupling as a natural occurrence of organizations and managing decoupling to hold the dualities and paradoxes in dynamic interplay. China's transformation shows that meaning can be managed, and that rhetoric does matter, but the management is only functional when people accept that rhetoric and meaning are fundamentally decoupled.

Chapter 2

Scholarly Accounts of China's Transformation

The question of how to grapple with China's capitalist transformation lies at the center of studies of contemporary China. Is Chinese capitalism distinct (Redding, 1990)? What kind of capitalism is likely to emerge in the People's Republic of China (Redding & Witt, 2007)? How can this extraordinary capitalist transformation be explained (Hamilton, 2006)? What accounts for the China miracle (Huang, 2008)?

Two problems limit the value of much of the prior research. First, most studies on Chinese capitalism focus on the capitalist forms existing in China at a specific point in history. These studies offer snapshots of what China looks like but overlook the process of capitalist transformation. The failure to take a processual view of China is likely to result in studies that explain why China adopted capitalist practices at the expense of explaining how this transformation took place. Scholarly explanations of "why" are often limited by scholars' disciplinary base, such as economic, political, or cultural approaches.

Second, and relatedly, prior work has focused on structure rather than agency in explaining the Chinese transformation. Even when research addresses agency, it does so only by looking at the structural conditions that permit agency, and not offering an understanding of the conduct of agency. For example, research rarely examines how the Chinese themselves navigate the entangled web of the past, present, and future, and have negotiated direction, action, and authority while moving the country away from its original state.

There have been four popular approaches to Chinese capitalism: (1) Weberian cultural approaches that resort to traditional Chinese belief systems to explain the origin and characteristics of Chinese capitalism, (2) economic explanations including fundamentalist market accounts and institutional economics perspectives, (3) political economic approaches that focus on state–society/government–market relations, and (4) political party–state approaches that emphasize political factions and the strategic actions of the Chinese leadership.

Weberian Cultural Approaches

In *The Protestant Ethic and the Spirit of Capitalism*, Weber argues that Western capitalism has a necessary moral component and that this moral component is premised on religion, specifically the doctrines of seventeenth-century Protestantism (Weber, 1958 [1904–5]). Weber tested this thesis in another text, *The Religion of China: Confucianism and Taoism*, in which he compared Confucianism and Taoism to Christianity and concluded that the religions of China did not bear the necessary "spirit" for capitalism to independently emerge in China (Weber, 1951[1915]).

Many subsequent works have sought to test Weber's theory by observing the development of East Asian countries. These studies attempt to identify the elements in East Asian belief systems that explain the emergence or absence of capitalism in East Asian countries (Hamilton, 2006: 5). Based on this logic, a first generation of scholars claimed that Japan was the only non-Western nation to industrialize quickly because of its unique religious beliefs that other Asian countries lacked (Bellah, 1957). However, when "miracles" came one after another, such as Taiwan, South Korea, Singapore, and later, China, scholars once again reviewed the philosophies and beliefs prevalent in these nations and declared that they indeed served similar roles to the Protestant ethic in the West. Gordon Redding, for example, investigated why capitalism "flourished so spectacularly among the Overseas Chinese" (Redding, 1990: 42). Based on interviews of ethnic Chinese businessmen in the countries surrounding the South China Sea, he mapped the spirit of Chinese capitalism by detailing the legacies of Chinese ideas at the level of the self, relationships, organizations, and society (Redding, 1990: 83). In addition, Redding and Witt discussed how the culture, or rationales of identity and authority, undergird the organizational and exchange forms that Chinese business often takes (Redding & Witt, 2007).

The Weberian research has attempted to explain Chinese capitalism by reference to "Chinese" values, beliefs, and logics of social relationships and organizations. For example, Redding (1990:43) outlined a cognitive map of Chinese values, among which Confucianism, Taoism, and Buddhism are the fundamental beliefs and values; family, networks, and ethnicity are the basic social structures; filial piety, collectivism/face, limited and bounded trust, and non-cooperation are the main relationship rules, and work ethic, money and frugality, and pragmatism are the main rules for action. This work provides a valuable foundation, but its focus on cultural structures ignores cultural action, that is, how these resources are utilized by actors in making social change.

Economic Explanations

The Chinese development of capitalism presents an interesting case for economists, with two opposing camps. On the one hand, some transition economists highlight China's incrementalist approach and consider the Chinese reforms more successful than transition economies that adopt a shock therapy approach. On the other hand, other economists characterize China's economy as "crony capitalism" and are critical of the Chinese political system as an impediment to building genuine capitalism.

The first camp lauds the Chinese reform efforts so far for China's GDP growth and relative political and social stability during the transition. The near-consensus view is that China has developed a unique, country-specific model for economic reform, in which institutional innovations such as mixed ownership structures, decentralization, and selective financial controls are conducive to the transition (McMillan & Naughton, 1992; Stiglitz, 1994).

For these economists, the case of China indicates that economic growth need not conform to universal economic principles.

The opposing camp holds a more negative view of China's economic condition. Economists who adhere to classical economic theories consider China's economic development to be a case that demonstrates what happens when free market principles are not observed. For these economists, China's growth has been accompanied by a huge amount of institutional inefficiency. The institutional innovations applauded by the first camp are seen as precisely what is preventing China from developing a form of capitalism that is similar to the Western model (Huang, 2008). For example, the economist Yasheng Huang notes that what many transition economists regard as mixed ownership companies, e.g., township and village enterprises (TVEs), are in fact mostly privately owned. Huang argues that China's economic reforms in the 1980s and 1990s were directionally different. In the 1980s, China more closely followed financial liberalism, which gave rise to the vital private sector and rural growth. However, the policy became much less friendly to private entrepreneurs and rural areas in the 1990s following the Tiananmen incident, which fostered corruption, a widening gap in wealth, and an unbalanced economy. Huang concludes that China's growth was successful when it fostered private property and financial liberalism and that it failed when it constrained private entrepreneurship and financial liberalization (Huang, 2008).

Thus, in economics, too, the research—both critical and laudatory—focuses on prevailing structures. There is little theory or empirical curiosity regarding the process of institutional change.

Political Economic Approaches

Many scholars working in the area of economic sociology have focused on the relationship between the state and the market, or between the government and the private economy. In contrast to economic explanations, which are anchored primarily on the market, political economic approaches anchor their analysis on the state, which is seen as the most important institution that frames and constrains economic actions.

Peter Evans has undertaken a comparative study of the information technology sector in South Korea, India, and Brazil during the 1970s and 1980s in order to probe the role of the state in both facilitating and hindering industrialization in developing countries (Evans, 1995). He argues that states are successful when they are agents of economic transformation and that this agency is most effective when the state enjoys "embedded autonomy." Embedded autonomy gives the state a degree of corporate autonomy from social groups, and at the same time, a good working relationship with capitalists or industrial elites. Evans distinguishes four types of state roles in economic transformation: 1) custodian, 2) midwife, 3) husband, and 4) demiurge. The

state as custodian provides protection, policing, and regulation. The state as midwife provides subsidies, tax breaks, and other favorable policies for certain sectors to support private enterprises. The state as husband cultivates, educates, and encourages entrepreneurial forces. The state as demiurge shapes production activities and influences the privatization of industries as their development matures. Evans argues that Korea has been more successful than India and Brazil in facilitating the development of the IT sector because the Korean state plays the “midwife” and “husband” roles, rather than the “custodian” and “demiurge” roles.

A number of organizational theorists have theorized the relation of the state to economic organizations (DiMaggio & Powell, 1983; Fligstein, 2001; Hamilton & Biggart, 1988). In contrast to Evans’s approach, which portrays the state as a concrete actor engaging in relationships, these scholars conceptualize the state as the institutional context within which firms operate. As the institutional environment, the state shapes economic actions by providing rationalized frames that account for the rules of economic activities. In a comparative study of the forms of business organizations in Japan, South Korea, and Taiwan, Hamilton and Biggart (1988: 87) argue that the ruling regimes in these countries all resort to “time-tested, institutionally acceptable ways of fashioning a system of political power.” Specifically, they emphasize that these regimes have attempted to “legitimize state power by adopting a reformulated model of imperial power of the kind that had existed before industrialization began” (Hamilton & Biggart, 1988: 87).

The political economic explanations offer a more sophisticated view of the state/business relationship than the economic explanations. Some critical insights generated from this approach are that the state and the private sector have shared interests, that they can work cooperatively, and that the state provides legitimate rationales for economic activities. There are, however, some unanswered questions and limitations. First, this approach portrays the state as an actor, yet offers little explanation regarding what motivates the state to act in a certain manner. For example, why do some states prefer facilitating the success of private entrepreneurs, while other states view the private sector with suspicion and hostility? It is difficult to see how these approaches might answer such key questions as why the Chinese state adopted a favorable policy orientation toward private enterprises in the 1980s and then reversed that direction in the 1990s.

Political Party–State Approaches

In contrast to the Weberian scholars who concentrate on ancient Chinese ideas, scholars with political party–state approaches focus on the Chinese Communist Party and the political system established in contemporary China. Research in this area regards the trajectory of China’s economic reform as importantly shaped by the strategic maneuvering of the top leadership and a negotiated consensus of political agendas within

the Communist Party. While these scholars consider China to be an authoritarian regime and different than Western democracies, they go beyond merely denouncing the regime as a nexus of power games among a few personalities and are interested in discerning institutionalized arrangements and relationships that could lead to predictable policy outcomes.

Susan Shirk (1993) discusses the “political logic” of China’s economic reform by looking into the authority relations between the Communist Party and the government, leadership incentives, bargaining arenas for policy-making, groups enfranchised in the policy process, and rules for making decisions within the bureaucratic hierarchy. She argues that China’s path—economic reform without political reform—refutes the standard wisdom regarding the rigidity of communist systems. She concludes that China’s path of economic reform is more successful than Russia’s path because of two features of Chinese political institutions: First, China’s political institutions are less institutionalized than those in Russia, which provides the Chinese leaders with more flexibility to reconfigure their government and party practices as policies favorable to economic reform, and second, China’s authoritarian institutions, which are characterized by “reciprocal accountability,” enable China to make effective progress in at least some policy areas. In comparison, although Gorbachev established a democratic political authority in the Soviet Union version of economic reform, the democratically elected legislatures lacked the sense of responsibility that must come with authority, which led to populist immobilism (Shirk, 1993: 346–350).

Building on and extending Shirk’s approach, scholars have focused on the political factions within the Communist Party. The factions are fluid and complex, but they permeate Chinese politics across the different eras of party rule. For example, Lai (2006) describes the Maoist (whateverist) versus the pragmatist factions during the 1976–1978 period of transition from the Cultural Revolution to economic reform and the reformist versus the conservative factions during the 1978–1992 period of economic reform. Factional politics did not cease after 1992. Researchers have observed the emergence of new factions—specifically, the elitist coalition and the populist coalition—during the transition from the Jiang Zemin-Zhu Rongji regime (1989–2002) to the Hu Jintao-Wen Jiabao regime (2002–2012) (Fewsmith, 1994, 2008).

The strength of the political party–state explanations is that they detail the pattern and nature of networks and associations among top party leaders, thus focusing attention on the motives of political leaders and the reasons why some politicians and social groups bind together and others divide. A fine-grained understanding of the evolving political institutions in China helps understand policy changes.

However, the weakness of this approach is that it is concerned with the material interests and relationships of political actors. This approach is one-sided in ignoring the contributions of symbols and language. The latter are particularly important in China, as China has a rich history of statesmanship and political maneuvering through discourse. Scholars have observed that “real power in China was often displayed subtly” (Pye, 1981) and that “factional conflict was often waged in political discourse and in sub-

tly different political terms” (Baum, 1994). Therefore, a more complete understanding of the policy process of the Chinese political institutions requires an analysis of the discourses of political actors and the symbolic meanings that are part of political action.

Elite-Led Institutional Change

China’s change is in no small measure the result of “institutional entrepreneurship” exercised by powerful key actors. However, most studies of institutional entrepreneurs focus on actors who are at the periphery of the organizational field (Leblebici, Salancik, Copay, & King, 1991), who are migrating from another field (Boxenbaum & Battilana, 2005), or who occupy lower positions in the bureaucracy (Battilana, 2006). Actors who occupy the center and top positions of a mature field are regarded as less likely to initiate radical change. The reason is simple: Actors whose authority and status are supported by current institutional arrangements have the least incentive to initiate radical institutional change, because such change may threaten their established power, positions, and legitimacy within the system. By contrast, actors who do not have institutional authority are less bound by existing rules, orders, and justifications for the status quo, and thus it is easier for them to act as change agents. Consistent with this insight, studies on social movements focus on movements initiated by peripheral, marginalized, and disenfranchised actors. As Gamson laments, however, the only thing that many social movement advocates have is a sense of injustice of the existing social order (Gamson, 1975). Yet in fact, from a rhetorical perspective, these social movement advocates have a rhetorical advantage for initiating radical change, since it is rhetorically consistent for them to question the current order.

While both the institutional literature and the social movement literature suggest that actors who are at the center and top of an institution are more embedded and therefore more constrained than peripheral actors by the logics and reasons that justify the existing order, a few scholars have studied cases of institutional change led by the power holders. Institutional scholars Greenwood and Suddaby have examined how the big five accounting firms decided to restructure the accounting field, noting that the top players have the advantage of being exposed to multiple fields and logics, and are therefore better positioned to perceive the need for change (Greenwood & Suddaby, 2006). Rhetorical scholar David Zarefsky has studied President Lyndon Johnson’s War on Poverty as a rhetorical movement initiated by the political power structure, arguing for a revision of the previous wisdom that movements can only be initiated by insurgent forces of minority groups (Zarefsky, 1977).

China’s transformation demonstrates that it is possible for power elites to radically change the social order without losing power or completely removing previous policies. To achieve such a result, the power elites must be skillful in their use of rhetoric.

Rhetorical Agency in Elite-Led Change

China's transformation provides an empirical site for examining how power elites use rhetoric to initiate institutional change under conditions of enormous constraint. Scholars have suggested that analysis of rhetoric and discourse is particularly useful for addressing the symbolic aspect of institutionally embedded agency (Green, 2004; Green, Li, & Nohria, 2009; Maguire, Hardy, & Lawrence, 2004; Phillips, Lawrence, & Hardy, 2004; Suddaby & Greenwood, 2005). A rhetorical perspective is uniquely suited to address the question of institutionally embedded agency because rhetoric describes how actors articulate new realities by creatively exploiting multiple and potentially conflicting premises and shared belief systems (Green, 2004; Green et al., 2009).

Elite agency is manifested in many ways. State actors exert agency when they use persuasion, rather than material power. This is not to suggest that the use of persuasion and material power stand in opposition. But it is almost always true that even the power elites would prefer to use rhetorical persuasion over coercive, material power. Agency is rhetorical in the sense that agency resides in the actor's intention and ability to motivate.

Rhetorical agency has three characteristics. First, rhetoric is an instrumental discourse aiming at persuasion (Bizzell & Herzberg, 1990; Gill & Whedbee, 1997; Herrick, 2005). It is a mode of altering reality through mediating thought and action (Bitzer, 1968). In achieving the pragmatic task of producing action or executing change in the world, the rhetor employs a discourse that engages the audience in order to effect change in the latter's thought and action (Bitzer, 1968). Rhetoric as intentional discourse indicates a strong sense of intentionality encapsulated in language (Li, 2023). Institutional change is the result of purposeful actors mobilizing symbolic resources to change the meaning system (Rao, Morrill, & Zald, 2000).

Second, rhetoric is political in nature since it always aims to influence power (Bizzell & Herzberg, 1990; Gill & Whedbee, 1997). This emphasis on politics has important implications for the study of institutional change. Institutional scholars have conceptualized institutional fields as consisting of multiple political projects undertaken by actors with varying degrees of power (Brint & Karabel, 1991; Fligstein, 1997). Fligstein argues that the ability to form a successful movement depends on political maneuvers such as building a political coalition around a collective identity (Fligstein & Mara-Drita, 1996). Strategic use of rhetoric in these activities plays an important role in successfully building coalitions and appealing to important constituencies.

Third, rhetoric highlights the role of audience. Institutional entrepreneurs need to enlist participants and attract agreement and sympathy from the audience. They face rhetorical contingencies that impose restrictions on their strategic choices and resource mobilization techniques. The repertoire of cultural arguments to which they have access is contingent on the rhetorical situation, i.e., the expectations of audiences about what is appropriate for the rhetor to say. The Chinese state actors faced multiple audiences, including internal opposition from the top party members, opposition

from party members who were lower in rank, opposition from domestic Chinese who were not a member of the Communist Party, and opposition from international audiences. The Chinese state actors had to speak to multiple audiences.

Rhetorical Requirements of Elite-led Institutional Change

China's transformation has been enabled by elite rhetoric that introduces and embeds modern markets in China's unique political structure. As previously mentioned, the adoption and implementation of neoliberalism by a communist party in a socialist country poses extraordinary challenges. The change agents must satisfy certain requirements for their rhetoric to work. I introduce four dimensions of rhetorical requirements, which are the imperatives and functions that the rhetoric of change agents must fulfill (Simons, 1970): (1) the creation of rhetorical fidelity in the context of contradictory meanings, (2) the establishment of legitimate authority when such authority is in question, (3) the management of escalating oppositions that can evolve into society-wide controversies, and (4) the co-optation and transformation of the adopted ideology into the dominant ideology. Four articles in this book—Chapters 3, 4, 5, and 6—respectively discuss the rhetorical strategies that Chinese elites have employed to fulfill these four rhetorical requirements.

The first rhetorical requirement is to maintain continuation and fidelity to the existing and dominant ideology while creating the rhetorical space necessary for leaders to propagate new arguments. Given that the Chinese leaders chose to maintain the communist and Marxist ideology, the adoption of capitalist practices became a controversial act, one that could not easily be reconciled. To initiate such a controversial idea, the state actors needed to provide continuity with the party's revolutionary history and stretch the boundaries of the core ideology to create a ground for new possibilities. Unless a regime wants to initiate change solely by force or give up its power, it must first create a rhetorical space in the public sphere where key concepts can be negotiated and redefined.

Chapter 3 introduces the CCP's rhetorical history work—that is, how the CCP has rhetorically constructed its history in its high-level ideological innovations to lend legitimacy to controversial practices while proclaiming allegiance to Marxism and communism. This chapter identifies rhetorical casuistry as a form of rhetorical history work. Casuistry can be found in invented slogans and catch phrases that link the past with the future, the traditional with the modern, and the socialist with the capitalist. The CCP's theorizations were sufficiently ambiguous and blended to allow for multiple interpretations. Through its casuistic rhetoric, the CCP signaled to the public its willingness to open up a space for new ideas yet maintained rhetorical fidelity to its ideology.

The second rhetorical requirement is the renewal of the strategic leaders' own legitimate authority. This is perhaps unique to elite-led radical change. Once a rhetori-

cal space opens up, the results of argumentative engagements become uncertain. It is possible that leaders' own authority is subject to public doubt and interrogation. If leaders fail to adjust their characters and credibility to the new situations, they face the danger of completely losing legitimacy and power. Moreover, leaders may lose the momentum of the institutional change, and crisis, unpredictable shifts in policy orientations, and instability will ensue. Therefore, to sustain the momentum of the movement, leaders need to keep their followers' trust.

Chapter 4 explores the rhetoric that Chinese leaders have employed to reconstruct their character and credibility in order to maintain their relevance and authority in the eyes of their audience. At different stages of the development of a controversial market with changing expectations, leaders needed to take on a different ethos and character. Aristotle's framework of rhetorical genres suggests three generalized types of ethos: the defendant, the teacher, and the manager. The CCP's main propaganda newspaper—*People's Daily*—utilized the Aristotelian rhetorical genres to make long-lasting impacts on the psyche of stock market participants, justify the adoption and development of the quintessential capitalist stock market, and reassert the party's role as a central actor in the market.

The third rhetorical requirement involves dealing with resistance and oppositions, particularly when they escalate into society-wide controversies. Resistance may come from within the establishment or from other social groups. Resistance may take the form of urging a return to the past, or criticizing the change as too fast, too slow, incorrect, or immoral. Failure to manage oppositional arguments in public controversies can derail the change effort. This requires the change agents to understand the nature of public controversies, to intervene when necessary, and most importantly, to channel the energy of public engagement to shape policies.

Chapter 5 traces three major controversies among high-profile Chinese economists and other expert elites during the stock market development. Controversies are an enduring feature that accompanies China's transformation; they are inevitable because opening up the rhetorical space invites oppositional arguments. This chapter discusses the topics of each controversy with the goal of identifying the progressive shifts in presumptions or the burden of proof. Presumptions constitute the ground for legitimacy judgments, and shifts in presumptions can have far-reaching effects on policies. Strategic responses by the party often tipped the balance of competing ideological orientations, as shown in the shifting presumptions, which shaped the trajectory of stock market institutions.

The final rhetorical requirement involves managing the evolution of the adopted ideology and its effects on the original ideology. Continuously implemented capitalist practices can lead to fundamental changes in materiality, which include transforming the social and economic structures supporting the original dominant ideology. When both the socialist and the capitalist materiality benefit from the capitalist transformation, the leadership may be more emboldened to appropriate the adopted ideology,

which can lead to significant re-definition of the adopted ideology and a strengthening of the original dominant ideology.

Chapter 6 uses the adoption and development of the private equity industry as an example to show how the CCP appropriated capitalist ideology in support of its own development schemes. By analyzing the rhetoric of elites and the rhetoric of trade media, together with changes in regulations, this chapter identifies two distinct institutionalization processes. The first-order institutionalization process was a relatively faithful adoption of the Western private equity model, but the second-order institutionalization process gradually superseded the first-order signification and transformed the players, goals, and rules of the game of the industry. The chapter shows that the CCP currently has an upper hand in defining the industry, with the capitalist class struggling to work within a very different system.

Together, these chapters provide a sophisticated account of the ongoing rhetorical game of the Chinese elites and citizens. To say that it is a rhetorical game is to suggest that both elites and average citizens willingly participate in the construction and interpretation of the vocabularies, arguments, and narratives that account for the transformation. Although this book focuses on the rhetoric of China's party-state actors, it sees such rhetoric as situated in and responding to the rhetoric of the average party members and the masses. Many scholars have argued forcefully that China's transformation is largely the effort of millions of unknown farmers via a massive movement that has been spontaneous, unorganized, and leaderless (Kelliher, 1992; Zhou, 1996). Indeed, millions of workers, employees, middle managers, contractors, small business owners, professionals, entrepreneurs, citizen groups, and social media influencers and users have contributed to the articulation of the visions, theories, and justifications for each step taken along the way. The emphasis of my examination on elite agency does not preclude the agency of the masses. All of these agents should be regarded as the rhetor for the transformation. Elite agency is just another term for rhetorical agency—when one starts rhetoricizing, one is exercising agency.

Chapter 3

Casuistry as Rhetorical History: Legitimizing China's Market Transformation

A village once used horses as its primary work animal. In this allegorical world, horses were creatures that complained unrelentingly and demanded food insatiably, yet provided little labor in return. In contrast, zebras were exactly the opposite kind of animals—efficient, tireless, and loyal. After many years of poor results from horses, the village chiefs realized that the village would benefit more if horses were replaced by zebras. However, this was not a small change. For many years, the village heads had extolled the virtues of horses and condemned the vices of zebras, and the villagers had come to accept that horses were good and zebras were bad. The village chiefs patiently embarked on the delicate work. Every night, under the cover of darkness, several villagers began painting black stripes on a few of the village horses. Each morning, everyone was surprised to see these animals, but they were assured that these were indeed their own horses with a few harmless painted stripes. As nights went by, more and more horses were painted, but even with all the painting going on, everybody was still assured that these were certainly horses and not zebras. After people became accustomed to life among these painted horses, the leaders made another move. Again, under the cover of night, they began replacing a few painted horses with real zebras. Quickly, the zebras proved their worth in the field, and as a result, village life clearly improved. But all the while, the leadership maintained that these zebras were just horses, albeit with artfully applied stripes. Gradually, people become accustomed to life with real zebras, and they started to conclude that these animals might indeed be zebras, and that zebras were not so bad after all. Only after another long interval, well after all the horses had been replaced, and well after many seasons of prosperity had passed, did the chiefs gather the citizenry and officially proclaim that this was a village of zebras and that zebras were good.

This fable, told by Chinese economist Zhang Weiying to describe China's process of economic reform, demonstrates the important, but often overlooked, role of reinterpreting past and present events in order to create the perception of continuity in the face of transformational change. Specifically, the fable underscores the need to maintain a sense of confidence and trust in the enduring continuity and stability of key institutions in the midst of profound social and economic change. This is accomplished, the narrative suggests, by managing collective interpretations of the scope and pace of change and by managing perceptions of whether events constitute a radical breach with tradition or, instead, are gentle extensions of foundational principles.

The process of change and stability has been a central thesis in institutional theory (Clemens & Cook, 1999; Schneiberg & Clemens, 2006). Critics of this literature have argued that studies of institutions have tended to characterize change in realist and

essentialist terms in that they view the reality of change as existing independently of the rhetoric of change (Phillips, Lawrence, & Hardy, 2004; Phillips & Oswick, 2013; Silince & Barker, 2012; Tsoukas & Chia, 2002; Gray, Purdy, & Andari, 2015). Despite a long tradition of social constructionist perspectives on institutions (Green Jr. & Li, 2011; Maguire & Hardy, 2009; Meyer & Höllerer, 2010; Phillips & Malhotra, 2008; Powell & Colyvas, 2008; Purdy & Gray, 2009; Zilber, 2006, 2008), research on institutional change has overlooked the critically important role of powerful actors who have a vested interest in characterizing change as either continuous or discontinuous. However, recent scholarship is beginning to acknowledge that characterizations of change and stability occur at the intersection of objective occurrences of historical events and their subjective interpretations (Dalpiaz & Stefano, 2017; Suddaby & Foster, 2017).

Our central interest in this paper is to challenge essentialist assumptions about the nature of change. Our core theoretical research question is: How do powerful actors manage the perception of change? To answer this question, we adopt the lens of historical institutionalism (Steinmo, 2009; Suddaby, Foster, & Mills, 2013), which suggests that notions of stability and continuity are social constructions that negotiate the relationship between past, present, and future. Collective interpretations of the pace and scope of change are rarely objective. Rather, they are rhetorical interpretations of history. We use the construct of rhetorical history—the strategic use of the rhetoric of past, present, and future to legitimate new organizational claims through old ones (Suddaby, Foster, & Quinn-Trank, 2010)—as a means to understand change as a rhetorical product and process.

The recent transformation of the economic system in China provides an ideal context for addressing our research question. For nearly four decades, China operated as a centrally planned economy that eliminated private property and rejected the free market allocation of goods and resources. Since 1978, however, Chinese leaders have introduced radical new changes that incorporate free market structures and capitalist practices in the country's economy. However, unlike many other post-communist societies, China's radical change did not involve a complete abandonment of Marxist ideology or a collapse of the communist social structure (Oi, 1995). Incredibly, the market-economy reforms were adopted within the context of an espoused historical commitment to Marxism. Perhaps for this reason, China scholars have divergent views on how to characterize the nature of China's change. The reality of China's transformation is clearly more complex and nonlinear than the fable told by Zhang Weiyong; in fact, there is a question regarding whether zebras will ever replace painted horses. Therefore, our core empirical question is how powerful change agents rhetorically negotiate historical narrative and attitudes to construct the process of change.

Based on a rhetorical analysis of major texts produced by the CCP from 1977 to 2017, we found that the rhetoric of change in China was achieved by the strategic use of many "painted horses"—a rhetorical strategy of using history to characterize radically new institutions as incremental adjustments to old ones and to paint long-standing institutions as disruptively new ones. In particular, we identify the critical

role of casuistry as a key rhetorical strategy in this process. Casuistry, a case-based method of reasoning (Jonsen & Toulmin, 1988), is a rhetorical strategy based on irony (Burke, 1969) that allows reconciliation between competing interpretations of history. We demonstrate how the use of casuistic rhetoric can construct a kind of institutional change that is perceived as simultaneously continuous and rapid, developmental and transformational.

Theoretical Background

Theories of Change in Institutions

Neo-institutional scholars have theorized processes of change as discrete events that can be categorized along different dimensions. The first dimension typically involves the scope or the degree of divergence from the initial, established interpretive schemes, archetypes, frames, and templates (Greenwood & Hinings, 1993). Consistent with theories of organizational change that distinguish between first-order and second-order change (Bartunek & Moch, 1987, 1994), institutional change is described as either convergent (fine-tuning an existing template) or radical (breaking loose from an existing template) (Greenwood & Hinings, 1996). The second dimension concerns the dynamics of change in terms of pace and scale. More recently, Micelotta and colleagues (2017) delineated four pathways of institutional change: displacement (change that is revolutionary in pace and transformational in scope), accommodation (change that is revolutionary in pace and developmental in scope), alignment (change that is evolutionary in pace and developmental in scope), and accretion (change that is evolutionary in pace and transformational in scope). They further noted that accommodation and accretion are far less studied than the other two types of change.

While these typologies provide analytical clarity, they somewhat unrealistically assumed that change is a binary phenomenon that neatly falls into discrete categories of radical or convergent, transformational or developmental. Applying this typology to China's case creates confusion as to where the case belongs. This is because such theorizations suffer from reifying ideal types of change as empirically distinct. Even though constructs of displacement, accommodation, alignment, and accretion were conceived as theoretical categories that would rarely if ever occur in pure form empirically, researchers appear to have treated the constructs as empirically distinct and have, in their studies, "selectively appropriated aspects of the work that accord with prevalent discourse in the field" (Mizruchi & Fein, 1999: 194).

History challenges such "tidy" notions of institutional change as a binary, discrete, and sequential phenomenon. For example, consider John Reed's detailed ethnographic account of the Russian Revolution in *Ten Days that Shook the World*. Reed (2017[1919]) captures the detailed complexity of multiple social groups engaged in an often confusing struggle of fluid alliances and shifting factions, in which not only the

ideological boundaries are unclear, but discerning which groups supported stability or change is impossible. The clarity of the October Revolution as a struggle between the Reds (Bolsheviks) and the Whites (Imperialists) emerged only in retrospective reconstructions of the conflict, defined in large part by ongoing efforts to reinterpret the history in a way that favored the interests of powerful actors engaged in the struggle (Reed, 2017[1919]). Reed's account of the October Revolution reminds us that processes of stability and change not only co-occur, but often only through the process of reinterpreting the past do we see them as discrete and binary phenomena.

A few emerging studies of institutional change have started to acknowledge that change and stability are not discrete events (Zietsma & Lawrence, 2010: 190). However, most institutional theories of change still hold a reified view of change as an objective process that occurs independently of the interpretation of interested actors. Adopting a historical lens alters such simplistic assumptions of institutional change as an objective phenomenon and suggests the alternative possibility that characterizing an event or a period as turbulent or calm is an act of historical sensemaking that is imbued with political interest (Koselleck, 2004).

Not only does a historical point of view challenge our categorization of change as a binary, discrete, and episodic event, it also problematizes our assumption of change as an objectified event that is somehow immune from processes of social construction. The degree to which an event is characterized as “radical” or “convergent,” and “evolutionary” or “revolutionary” is of critical political importance to actors who have an interest in interpreting and representing change as both radical in nature and consistent with tradition. That is, while some elements of change may be objectively determined, a vast and unexplored element of change is rhetorically mnemonic—i.e. shaped by strategic interpretations of how the past is remembered.

Rhetorical History

An emerging stream of research has adopted a more nuanced view of change as a social construction rather than an objective event. One of the earliest illustrations of this is offered by Munir & Phillip's (2005) description of how the innovation of digital photography by Kodak, which was actually the outcome of a broad and complex array of historical micro-events, but which has been distilled in its retelling by interested actors (not the least of which was Kodak corporation, itself, as well as academics interested in promoting theories of institutional entrepreneurship), into a discrete and historically significant “technological jolt”. The historical significance of a change event is not wholly objective—indeed it is often not recognized as significant in *media res*—but rather, Munir observes, is determined by the narrative that is wrapped around the event in its stylized retelling by actors who hold an interest in it being characterized as historically disruptive (Munir & Phillips, 2005).

The idea that the historical significance of an event is socially constructed through the use of rhetoric is captured in the construct of *rhetorical history* (Suddaby et al., 2010). The construct is built on a well-established premise that language and meaning are central to many core institutional processes (Lawrence & Suddaby, 2006; Vaara & Lamberg, 2016). So, for example, legitimation (Suddaby, Bitektine, & Haack, 2017), diffusion (Green Jr. & Li, 2011; Green Jr., Li, & Nohria, 2009), institutionalization (Brown, Ainsworth, & Grant, 2012; Hardy & Maguire, 2010; Maguire & Hardy, 2009), and translation (Czarniawska & Savón, 1996; Zilber, 2006) have each been shown to rely on the skillful practice of rhetoric.

Rhetoric is about both persuasion and knowing: the study of rhetoric as persuasive language emphasizes the political intentions of speakers in using language to influence audiences (Aristotle, 1991; Billig, 1996; Cheney, Chistensen, Conrad, & Lair, 2004; Hartelius & Browning, 2008), while the study of rhetoric as a way of knowing focuses on how rhetoric shapes the rationality, interests, and identities of both speakers and audiences (Bizzell & Herzberg, 1990; Burke, 1969; Conrad & Malphurs, 2008; Perelman & Olbrechts-Tyteca, 1969; Putnam & Fairhurst, 2001; Scott, 1967). A rhetorical view of history thus regards history as both a product of actors' rhetorical maneuvering of political reality and a process of symbolic meaning making that embeds actors in shared sensemaking.

Suddaby and colleagues (2010) defined rhetorical history as the strategic use of the past as a symbolic resource to achieve strategic goals. Here, "the past" is understood phenomenologically, as a continuous flow of historical consciousness about experiences constructed as important, and therefore cannot be constructed in isolation from the present and future (Heidegger, 2010). Rhetorical history echoes process philosophy in its understanding of time: "the perfect moment is fadeless in the lapse of time" (Whitehead, 1985: 338), and it views organizational reality as being in a state of perpetual "becoming" (Tsoukas & Chia, 2002; Maguire & Hardy, 2013). The capabilities of rhetorical history therefore encompass the use of history as the objective past, the interpretive present, and the imaginative future. Rhetorical history means making sense of and interpreting lived experiences to produce significance in the collective understandings of a community, consistent with Burke's (1984[1937]: Introduction) broad conception of history as "man's life in political communities" and "characteristic responses of people in their forming and reforming of congregations."

Rhetorical history draws from prior work that demonstrates how many long-standing "traditions" in prominent social institutions are actually of relatively recent origin and were often "invented" in order to create social cohesion, legitimate an existing social institution, or to create the perception of continuity as an established institution adapts to modern pressures (Hobsbawm & Ranger, 1983). So, for example, Cannadine (1983) demonstrates how the British Monarchy adopted the Christmas radio address in an effort to modernize the institution, but introduced it as if it were a long standing ritual that had existed long before the invention of radio broadcasting. The intent of such deception was to symbolically reinforce the enduring continu-

ity of the institution by ignoring the novelty of the innovation in an effort to symbolically construct a sense of continuity with the past.

A growing stream of research has employed the construct of rhetorical history to demonstrate how organizations use history to facilitate the sale of products (Holt, 2006; Ooi, 2002), to create organizational identity (Hatch & Schultz, 2017; Linde, 2008; Walsh & Bartunek, 2012), and to facilitate strategic change (Brunninge, 2009; Dalpiaz & Stefano, 2017; McGaughey, 2013; Schultz & Hernes, 2013; Dal). Anteby and Molnár (2010) describe the use of organized forgetting in a French aeronautical firm as a strategy of constructing a rhetorical history of the firm as having a distinct French identity. Internal bulletins issued by the organization systematically erased any history of the firm's involvement with foreign corporations. A similar analysis of the marketing strategy of the prominent Canadian fast-food outlet, Tim Horton's, demonstrates how a rhetorical history of the organization was constructed to create a sense of affiliation and continuity between the corporation and the national history of Canada (Foster, Suddaby, Minkus, & Wiebe, 2011). The reinterpretation of historical constructs also proved to be important in building commensurability between classic and modern arts thus facilitating the emergence of a new market category (Khaire & Wadhvani, 2010). More recently, in studying decades of executive speeches at Procter & Gamble, scholars identified rhetorical strategies that corporate leaders employed to justify new strategies with the core and enduring organizational identity and values, thus using constructed history to facilitate change (Golant, Sillince, Harvey, & Maclean, 2015; Maclean, Harvey, Sillince, & Golant, 2018).

Although rhetorical history has informed a growing number of organization studies, it has not been used to extend our understanding of how powerful actors use history in their rhetoric of institutional change. In this study, we use rhetorical history to advance this understanding. Based on the inductive analysis of our case study, we identify casuistry as an umbrella construct that captures the nature of how powerful actors managed China's change. Casuistry is defined as a rhetorical method wherein "one introduces new principles while theoretically remaining faithful to old principles" (Burke, 1984[1937]: 229). It involves "application of abstract principles to particular conditions" (Burke, 1969[1950]: 155). Applying abstract principles and rules to specific cases and situations is frequently not a clear-cut process and involves modifying the abstract principle or negotiating the relationship between principle and case (Jasinski, 2001). As such, casuistry is viewed as a necessary and inescapable attribute of language (Burke, 1969[1950]) that describes "all 'metaphorical extension' in the effort of managing old and new principles" (Burke, 1984[1937]: 230). The function of casuistry is therefore understood to be the reconciliation of contradictions by using ironic strategies to mediate between terms (Carlson, 1992): "Irony arises when one tries, by the interaction of terms upon one another, to produce a *development* which uses all the terms (Burke, 1969: 512)."

Despite its centrality in symbolic processes, casuistry gained a pejorative reputation in the eighteenth century, when it was perceived as a degenerate form of reason-

ing that entails moral laxity and an intention to mislead. Rhetorical scholars Stephen Toulmin and Albert R. Jonsen refuted the denigrative view of casuistry, instead defining it as a useful case-based method of decision-making for solving moral dilemmas. According to Toulmin and Jonsen, casuistry lies at the heart of everyday reasoning since it uses practical procedures rather than general abstract principles when dealing with a multitude of particular concrete situations (Jonsen & Toulmin, 1988).

We posit that China's change agents used casuistry to make some radical changes appear moderate and to position some incremental modifications as disruptive, in an effort to develop new meanings while maintaining the legitimacy of several core institutions. In this study, we make two key theoretical contributions. First, we demonstrate the critical role of casuistry as a fundamental technique of rhetorical history for managing contradictions and negotiating the tensions between past, present, and future. Specifically, we identify four distinct techniques of casuistry that enable the rhetorical construction of change as both radical transformation and continuation of a long-cherished and persistent past. Second, our delineation of casuistic institutional change challenges the essentialist view of change by demonstrating how notions of change and stability are rhetorical reconstructions of events as either continuous with or divergent from prior norms, values, and practices.

Methods

We adopt a single, field level case study research design (Yin, 2003) which, based on prior research, has proven effective in analyzing processes of institutional change predicated on shifts in meaning (Maguire & Hardy, 2009; Phillips & Oswick, 2013; Vaara, 2010). Our analysis is guided by rhetorical criticism, "a qualitative research method that is designed for the systematic investigation and explanation of symbolic acts and artifacts for the purpose of understanding rhetorical processes" (Foss, 2009: 6). Distinct from discourse analysis, which tends to focus on how texts relate to macro-sociological forces and constitute power relations, rhetorical analysis focuses more directly on pragmatic issues of how actors with power use language strategically to align audiences with their motives in an effort to manage both stability and change (Burke, 1965[1936]). Thus, rhetorical theory reveals the motives of the speaker by putting the text in the context of audience and situations and by attending to both the intended and unintended consequences of rhetorical artifacts (Burke, 1965[1936]; Green Jr. & Li, 2011).

Rhetorical theory is a particularly appropriate lens for analyzing Chinese cases because rhetoric has long held an exalted position in Chinese politics. Chinese dynasties, both imperial and political, have "institutionalized complex systems of language formalization that included the compilation of official lists of taboo characters" (Schoenhals, 1992: 2). Mao Zedong was so profoundly aware of the power of rhetoric that he famously observed that the fate of the nation rested on the power of accurate

language formalization such that “one single [correct] formulation and the whole nation will flourish, one single [incorrect] formulation, and the whole nation will decline” (Mao, 1976: 120). As a result, political analysts note, “For thirty years Mao Zedong ruled the country by campaign slogans” (Li, 1995). The formalized language of the official communications of the CCP is well understood to be a highly refined form of rhetoric that is managed and manipulated by the state for the attainment of specific goals, not the least of which is preserving the continuity and stability of the party (Li, Green Jr., & Hirsch, 2018).

The Case Study: China’s Transformation

Beginning in the late 1970s, China entered into a massive program of profound economic reform. Key institutional elements of the long-standing communist economy, dominated by state ownership and central planning, were profoundly altered by the introduction of institutional elements of a market economy, including the dismantling of large agricultural collectives, legitimating entrepreneurs, opening the country to foreign investors, privatizing smaller state-owned enterprises (SOEs), and restructuring large SOEs (Huang, 2008; Nee & Oppen, 2012).

Between 1978 and 2012, China’s economy grew at an average pace that varied between 9.5% and 11.5% per year, and China’s per capita income increased by 6% per year, a pace of economic growth that far exceeded that of all other Asian countries during the same period (Zhu, 2012). Ten years after it entered the World Trade Organization, China came to be recognized as one of the leading economies in the world.

China’s economic reform is distinguishable from the transitions of other communist countries not only by its relative success, but also because China’s adoption of capitalism occurred in a society that “still loudly proclaims its commitment to Marxism” (Kliver, 1996: 1). The former Soviet Bloc countries all renounced communism as they adopted the institutions of a capitalist economy. However, China has firmly retained both its Marxist-inspired principles of socialism and the legitimacy of the CCP as a dominant political institution. To be sure, political instability has been a specter haunting China (Goldman & MacFarquhar, 1999; Shirk, 2008). Yet no one would disagree that liberal economic reforms have brought radical changes in the institutional economic governance infrastructure (Yang, 2004).

China’s case presents an empirical challenge to the theoretical typologies of institutional change. In terms of diverging from the socialist archetype, China’s change is less transformative than the Soviet Union’s, as it does not abandon core socialist institutions such as the CCP and the SOEs. In fact, many emphasize the continuation and strengthening of its enduring political authoritarianism (Pei, 2006). However, many China scholars have credited China with building a more comprehensive market-oriented economy than countries that abandoned socialism altogether (Shirk, 1993;

Stiglitz, 1999). In fact, some see China as *de facto* capitalist and well on its way to resembling Western democracy (Coase & Wang, 2012; Yang, 2004). In terms of speed, China's change is typically seen as incrementalist, standing in sharp contrast to the "shock therapy" model of former Soviet Bloc communist economies (Lai, 2006; McMillan & Naughton, 1992; Qian & Xu, 1993; Stiglitz, 1994). However, to others, the speed of China's change amounts to nothing less than a "Second Revolution" (Harding, 1987). Many have recognized the limitations of existing concepts and have created new terms to describe the reality of China's changing landscape, which defies easy categorization—for example, "deliberative authoritarianism" (He & Warren, 2011), "consultative Leninism" (Tsang, 2009), and "hybrid regimes" (Diamond, 2002).

So should China's case be categorized as displacement, accommodation, alignment, or accretion? Micelotta and colleagues (2017) observed that accommodation and accretion pathways are nonlinear and require more sophisticated causalities. Accommodation pathways involve revolutionary changes that are slowed down by resistance and end up generating less consequential alterations or developmental changes, while accretion pathways involve evolutionary changes that are accelerated by amplification and thus produce transformational change. An avid China observer would conclude that China's reform involves both accommodation and accretion pathways. There are many accounts of elite factional politics that have dampened the scope of change (Baum, 1994; Vogel, 2011), and there is ample evidence that the reform is propelled by small-scale, local initiatives that stimulated large-scale, field-level transformation (Nee & Opper, 2012).

We believe that China's case defies a discrete typology of change pathways. In fact, institutional paths themselves are full of "litter"—"ambiguities, multiple layers, potentially decomposable components or competing logics which actors can use as vehicles for experimentation, conversion, recombination and transformation" (Schneiberg, 2007: 52). Pathways of institutional change are plural and heterogeneous as actors employ institutional rules as a repertoire to engineer both durability and change while allowing for institutional mutation (Clemens, 1993; Clemens & Cook, 1999). From the perspective of rhetorical history, the pathways that include the institutional past, present, and future are an interpretive device and an invented tradition (Suddaby, Foster, & Trank, 2010: 155; Suddaby & Foster, 2017). In this respect, China's case presents scholars with a unique opportunity to explore how change can be accomplished largely by a skillful process of rhetorical history—i.e., reinterpreting critical elements of the past, present, and future to make radical changes appear moderate and vice versa.

Data Sources

We focus explicitly on the formal communications that arise from the National Congresses and plenary sessions of the CCP between 1977 and 2017. The National Congress

is the highest political body in the CCP and is responsible for determining both party policy and leadership succession. At each National Congress, the General Secretary of the Party, who is also the President of China and the Chairman of the Chinese military, delivers a formal report to the newly elected members. This report serves as the central statement of political ideology in China as well as the primary source of formalized language designed to manage political and social change.

Exceptional care is taken in debating the contents and drafting the Report that in some cases it can take months or years to complete. The significance of these documents extends far beyond the conferences within which they are delivered and approved. The Report is broadcast on national television and is reprinted in most major newspapers. Because of their national and global significance, over the past twenty years the meetings and the Reports have garnered international media coverage. The resolutions, decisions, proposals, and other documents that emanate from the meetings are also printed in major newspapers, often accompanied by major editorials of the *People's Daily*, the national newspaper owned and operated by the CCP. The CCP is organized by branches, committees, and small groups at all levels of government from the central government down to tens of thousands of village-level Party Committees, and well over one million Party Organizations at the organizational level (Gore, 2011: 36). These groups hold regular meetings devoted to studying the documents. As a result, the ideas and linguistic formulations of the Report and its associated documents are reiterated and propagated as aphorisms, terms, and phrases that permeate public consciousness.

We analyzed the Reports and associated documents generated by the party's National Congress between 1977 and 2017. We chose 1977 as the starting point of our data collection because it marks the first National Congress of the CCP after the Cultural Revolution, which ended in 1976 and which initiated the shift toward economic reform. Eight National Congresses were held between 1977 and 2017, and an additional sixty plenary sessions were held during this period. Each conference generates a set of important documents that supplement the Report, variously labelled as resolutions, decisions, communiques, speeches, proposals, and so on. We collected all of these documents along with the editorial coverage of the conferences from the *People's Daily*. We also collected the annual government work reports delivered by the Premier of China's State Council at the National People's Congress. These government reports are delivered every year in March and address all aspects of government work with specific attention to economic development. Collectively, our data consists of 243 documents comprising 2,220,533 words.

Analysis

Our analysis proceeded in four stages. In the first stage, we determined the unit of analysis to be the formalized linguistic formulations that emerge out of these official

documents. The first author read through the documents and identified recurring linguistic formulations. All authors scrutinized these formulations with the help of an expert in the field of China studies. Our analytic criterion was to select the formulations that appeared most frequently in official documents and that diffused most effectively (i.e., received the most attention) in secondary sources such as newspaper editorials and related media attention. This phase of the analysis generated 36 linguistic formulations, listed in Table 1.

Table 1: Examples of Four Strategies of Rhetorical Casuistry.

Type of Casuistry	Slogan	Year first appeared in official discourse	Interpretation
Casuistic Dislodging	Practice is the sole criterion for measuring truth	1978	This slogan claims that truth is only known by testing it in practice. This slogan countered a prevailing slogan at the time known as the “Two Whatever” which claims that whatever Mao said was truth. This slogan dislodges the credibility of Mao’s words from truth, which was taken for granted at that time.
	Mao Zedong Thought	1981	This slogan dislodges Mao Zedong’s individual thoughts from the slogan “Mao Zedong Thought.”
	Double-track system	1984	Under this system, goods have two prices or two tracks: a low price within the mandatory planning system, and a high price outside of the mandatory planning system. The first track is within the central planning system. The second track is a market system based on supply and demand. This slogan dislodges the notion that all prices are centrally planned.
	Household Contract Responsibility System	1979	This practice allows farmers to sell their products in the market at unregulated prices. It dislodges the quota system in the rural economy.
	Town-and-village Enterprises	1984	This organizational form allows people in towns and villages to establish market-oriented enterprises under the purview of local governments. It dislodges the idea that only state-owned enterprises (SOEs) are legitimate enterprises.

Table 1 (continued)

Type of Casuistry	Slogan	Year first appeared in official discourse	Interpretation
	Separation of Party and Government	1986	This slogan dislodges the belief that the CCP and the government are one.
	Separation of Government and Enterprise	1986	This slogan dislodges the assumption that enterprises are managed by the government.
	Separation of the right of ownership and the right of operation	1986	This slogan dislodges the assumption that ownership of state assets in enterprises is the same as direct management and operation of the assets.
	Science and technology is the number one production force	1988	This slogan dislodges a taken-for-granted assumption that the production force is primarily the blue-collar working class.
	Three Represents	2000	This theory states: “Our party must always represent the requirements for developing China’s advanced productive forces, the orientation of China’s advanced culture and the fundamental interests of the overwhelming majority of the Chinese people.” It dislodges the assumption that the CCP only represents the proletariat. Based on this theory, the middle class and capitalists can all become CCP members.
Casuistic Merging	Socialism with Chinese characteristics	1983	This slogan defines the nature and future of China. It merges “socialism” and “China”—two terms that belong to two distinct domains of meaning.
	Socialist Market Economy	1992	This slogan defines China’s economic system. It merges “socialist” and “market”—two terms that are widely and deeply held as contradictory.
	Planned economy as primary, market mediation as auxiliary	1982	This slogan introduces “market” to the established slogan “planned economy”; however, market is given a subordinate status.
	Planned commodity economy	1984	This slogan inserts the capitalist term “commodity” in-between “planned” and “economy,” thus significantly increases the weight of the market.

Table 1 (continued)

Type of Casuistry	Slogan	Year first appeared in official discourse	Interpretation
	The state mediate market, the market guides enterprises	1987	This slogan emphasizes the market as “guiding,” and relegates the role of the state to the background.
	State-owned Assets	1988	The term “assets” is considered to be part of the institutional vocabulary of capitalism before it is merged with “state-owned” in this slogan.
	State-owned Capital	1993	The term “capital” is considered to be part of the institutional vocabulary of capitalism before it is merged with “state-owned” in this slogan.
	Guidance Plan	1984	This concept merges “guidance” and “plan” to distinguish this kind of socialist planning from the taken-for-granted idea of socialist planning which is then dubbed the “mandatory plan.” “Guidance plan” is far less strict than “mandatory plan.”
	One Core, Two Basic Points	1987	The “one core” is economic building, and the “two basic points” refers to the “Four Cardinal Principles” and “economic reform and opening up.” The “Four Cardinal Principles” are about insisting on socialist road, the people’s totalitarianism, the leadership of the CCP, and Marxism, Leninism, and Mao Zedong Thought. This slogan juxtaposes economic development and ideological requirements which previously rejects market mechanisms.
	Insist on Four Cardinal Principles, Insist on Reform and Opening up	1987	This slogan is the “Two Basic Points” in the above listed slogan. It merges two contradictory requirements into two parallel points.
	Two hands to grasp, Both hands must be hard	1992	The “two hands” refers to several different content. The most popular version is: one hand should grasp economic development and the other hand should grasp criminal activities in the economic and political spheres. The slogan merges two forces that can be contradictory.

Table 1 (continued)

Type of Casuistry	Slogan	Year first appeared in official discourse	Interpretation
	Individual Economy	1981	This concept merges “individual” and “economy” to denote economic activities that are outside of the central planning system. Individual-owned enterprises are considered not “exploitative” if they employ under eight people.
	Private-operated Economy	1987	This concept merges “private-operated” and “economy” to legitimize economic activities that are outside of the central planning system.
	Mixed Economy	1995	This concept recognizes that state-owned and private companies co-exist and can own each other’s shares.
	Special Economic Zone	1979	This slogan confers special status to some coastal regions with favorable policies for market-oriented economic development.
Casuistic Substituting	From Planned Economy to Market Economy	1982–1992	The gradual substitution of planned economy with market economy took place over the span of 10 years.
	From Central Planning to Guidance Plan	1977–1987	By the time guidance plan became established, central planning became largely discredited.
	From State-owned enterprise to State Capital	1981–1993	When the idea of state capital became popular, this form of state ownership of SOEs replaced the traditional idea that SOEs are directly managed by the state.
	From state-operated factory to publicly listed firm	1977–1992	State-operated factories are managed by administrators in the government cadre structure within the central planning system, and this form was replaced by limited corporations and firms listed on the stock market.
	From All-people Economy to People- Operated Economy	1977–1993	All-people economy is the original label for the public ownership of enterprises. It completely disappeared. People-operated economy refers to many forms of ownership ranging from firms established by public universities to individual-owned firms.

Table 1 (continued)

Type of Casuistry	Slogan	Year first appeared in official discourse	Interpretation
Casuistic Stretching	Public Ownership System	1982–2007	This concept is stretched from state operated enterprises to many organizations forms including the state-owned shares of publically listed firms.
	Socialism	1977–1992	Socialism is stretched from central planning, absolute equality, and an image of poverty to market, efficient production, and wealth.
	Marxism	1977–1988	Marxism is stretched from referring to class struggle to advanced production force.
	The CCP	1977–2000	The CCP is stretched from representatives of the proletariat class to including representatives of private entrepreneurs
	Planning	1977–1987	Planning is stretched from absolute control of the quantity, pricing, and distribution of goods to include “guidance plan.”
	Market	1980–1992	Market is stretched from the quintessential embodiment of capitalism to an instrument of socialism.

In the second stage, we examined these linguistic formulations in the context of China's economic reform to understand how these formulations most effectively captured the zeitgeist of the economic change that was occurring in China. We iterated between data and rhetorical theories and made three observations regarding these linguistic formulations. First, the linguistic formulations involve significant legacies in modern and contemporary China. Second, they are infused with new meanings in the context of the economic transition. Finally, they often caused confusion, shock, dissent, and a sense of irony when they became official language. These characteristics led us to identify casuistry (Burke, 1984[1937]; Jonsen & Toulmin, 1988) as a rhetorical construct that best reflects the manipulation of longstanding symbols for achieving strategic purposes.

In the third stage, we further analyzed the data and inductively arrived at four distinct techniques of casuistry from the 36 linguistic formulations—casuistic dislodging, casuistic merging, casuistic substituting, and casuistic stretching. To better explain these casuistic techniques, we selected an example for each type: “Mao Zedong Thought” as an example of casuistic dislodging, “Socialism with Chinese Characteris-

tics” as an example of casuistic merging, the replacement of “Planned Economy” by “Socialist Market Economy” as an example of casuistic substitution, and “Public Ownership System” as an example of casuistic stretching.

In the last stage, we analyzed the data for each of the four types of casuistry at the paragraph level. The paragraph level of a text is important for understanding the changing meanings of a focal term because a natural paragraph is typically focused on one set of ideas or arguments. The intent of this analysis also included generating a more intuitively comprehensible form for visual presentation of the data. For each type of casuistry, we extracted all paragraphs that contain the key linguistic formulations. We then applied the bibliometric mapping software Visualization of Similarities (VOS), which employs techniques similar to multidimensional scaling to represent the frequency and proximity of co-occurrences of terms within paragraphs in the form of cluster maps that represent semantic networks (Waltman, van Eck, & Noyons, 2010). The VOS maps visualize the casuistic processes for the linguistic formulations and provide additional powerful insights into how their shifting meanings are embedded in historical periods. Our analysis makes contributions *of* theory through its adoption of a novel lens, i.e., rhetoric, for a well-studied phenomenon, i.e., China’s economic transition, and it also contributes *to* theory by using our observations about China’s case to inform existing theories of change (Whetten, 2009).

Legitimizing change through Casuistic Strategies

The four techniques of casuistry we identify share two common denominators. First, an original idea is somehow altered to include new elements while managing, in important ways, to claim fidelity to the original idea. Here, language is skillfully used to subtly create a change in meaning while maintaining a perception of stability. In a sense, casuistry reverses the adage of placing “old wine in new bottles” with the semantic twist of placing “new wine in old bottles.” Second, this linguistic transformation is accomplished by reinterpreting Chinese history. History has always had a powerful legitimating effect, particularly in the cultural context of China where, as scholars have observed, legitimization of the political order has always occurred within the narrative framework of a claimed historical mandate (Chafee & Chu, 1992; Sangren, 1988). As we demonstrate below, casuistry offers an extremely potent vehicle for understanding the workings of rhetorical history.

Casuistic Dislodging

We use “casuistic dislodging” to refer to a process by which a concept is “dislodged” from its taken-for-granted, denotative meaning. It emphasizes the deliberate act of forcing a concept out of its established, literal interpretation. This involves introduc-

ing an interpretation that is a clear alternative to the established meaning. However, casuistic dislodging does not involve the invention of a completely new concept. Although the original literal, denotative reference is rejected, the connotation attached to the original meaning is retained. Burke provides a useful analogy when he describes “verbal ‘atom cracking’”—wrenching a word that customarily belongs to a certain category loose and applying it metaphorically to a different category (Burke, 1984 [1937]: 308). In casuistic dislodging, the original meaning of a concept is detached but the connotation connected to its original use remains. Figure 1A presents the casuistic dislodging of a central CCP slogan: “Mao Zedong Thought.”

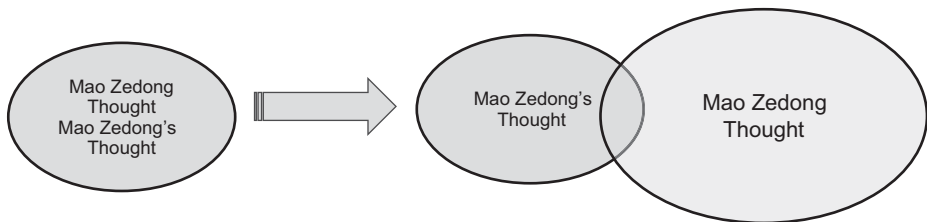


Figure 1A: Casuistic Dislodging.

“Mao Zedong’s Thought” vs “Mao Zedong Thought.” In China’s official political discourse, “Mao Zedong Thought” is one of three theoretical sources of the CCP, along with Marxism and Leninism. As the Cultural Revolution ended with Mao’s death and the prosecution of the “Gang of Four,” the CCP faced the situation of proffering an official discourse on how the party sees the legacy of Mao. There are several alternatives. One model is how the Soviet Communist Party treated Stalin after he died. In 1956, three years after Stalin’s death, Nikita Khrushchev denounced Stalin for his transgressions in a “secret report” to the Communist Party’s Twentieth Congress. Stalin’s status was completely overturned. Another standpoint the CCP could take is to avoid talking about Mao’s role in the Cultural Revolution and continue to enshrine Mao as the flawless founder and savior of communist China.

Note that for the CCP the slogan “Mao Zedong Thought” is not new. It was elevated officially in 1945 as the guiding theory of the CCP at its 7th National Congress. In 1956, it was removed from the Party Constitution at the 8th National Congress, following the wave of thought that advocated liberation of ideas and objection to idolization. In 1969, three years into the Cultural Revolution, Mao Zedong Thought was once again written into the Party Constitution as the guiding thought of the party at the 9th National Congress of the CCP.

The CCP faced a dilemma: Mao Zedong was a major source of legitimacy for the party, yet Mao’s Cultural Revolution was disastrous. If the party completely turned Mao upside down, the party would have to face the problem of justifying its own legitimacy. On the contrary, if the party was completely blind to Mao’s mistakes, it would

have to deal with dissent from millions of party officials and people who suffered prosecution during several waves of ideological movements, including the Cultural Revolution.

Inside the top leadership of the CCP, the dilemma was played out as political struggles between people with different political interests and conflicting views of Mao's legacy. Hua Guofeng, the successor of Mao who was selected by Mao himself, insisted that the Cultural Revolution was a great success of communism and that China should adhere to Mao's every word as the truth. Hua endorsed a slogan known as the "Two Whatevers"—"Whatever decisions that Chairman Mao has made, we will firmly maintain; whatever directives of Chairman Mao, we will forever abide by." The absolute correctness of Mao implied in this slogan made it hard to completely reject class struggle and the Cultural Revolution that Mao initiated. For example, it was Mao's decision to remove Deng Xiaoping from all the positions he held in 1975 because Deng refused to take charge in writing a resolution that would claim the Cultural Revolution to be 70 percent right and 30 percent wrong. The slogan of "Two Whatevers" made it impossible to claim that Cultural Revolution is wrong, bring Deng back to the leadership, and embark on a new course of action.

The rhetorical demystification of Mao Zedong's Thought was a long and elaborate process of linguistic formalization initiated by current CCP leader Deng Xiaoping beginning in 1980. As a proponent of economic reform, Deng Xiaoping had been previously removed from all official party positions by Mao for being a "capitalist roader." As Deng moved back to the center of leadership of the CCP, he mobilized a program of rhetorical and historical reconstruction of Mao Zedong Thought.

In 1980, Deng Xiaoping instructed a team of more than 20 writers, led by top party theoretician Hu Qiaomu, to work on a resolution that would generate a revised consensus on how the CCP viewed Mao Zedong. Deng Xiaoping closely guided the writing of this critical document. He met with the leaders of the team frequently, and excerpts of his comments on various drafts of the document, occurring over nine such meetings between March 1980 and June 1981, were published in a book in 1983 (Office, 1983: 444–465). In these excerpts, Deng repeatedly emphasized that the most central point of the resolution was to establish the historical status of Mao and his Thoughts. Deng noted that some people were confused about how to evaluate comrade Mao Zedong and Mao Zedong thoughts, and he envisioned the resolution to be a conclusive evaluation of the past in order to move forward in unity. Deng explicitly admitted that Mao committed mistakes and that his mistakes grew more since the anti-rightist campaign in 1957. In a critical foreshadowing of his strategy of introducing a negative sanction to widely held attitudes toward the role of Mao in the Cultural Revolution, Deng commented that when we talk about mistakes, we should not only talk about comrade Mao Zedong, and that the Central Committee should take responsibility for the mistakes collectively. Deng warned that "If we do not write about or insist on Mao Zedong thoughts, we will commit big historical mistakes" (Since the 3rd Plenary, 1983: 454), and that "We should not exaggerate comrade Mao Zedong's mis-

takes. If we exaggerate, we will smear the reputation of comrade Mao Zedong, which is to smear the reputation of our party and our country” (Since the 3rd Plenary, 1983: 455). Given the difficulty of the rhetorical situation, the CCP theoretician Hu Qiaomu devised an ingenious idea: define Mao Zedong Thought as an abstract philosophy collectively invented by party members, instead of the taken-for-granted understanding that it represents the thoughts of Mao, the individual.

The resolution was discussed in numerous meetings. The most notable is a month-long conference attended by four thousand top party cadres to discuss the resolution in October 1980 (Guo, 2010). Many of these party cadres were themselves prosecuted during the Cultural Revolution, some worked with Mao after the founding of the PRC, and some went back with Mao in the revolutionary war period. One of the biggest debates in this conference is the evaluation of Mao Zedong Thought. Objections includes: it is illogical to say that Mao Zedong Thought only includes correct thoughts, and that wrong thoughts do not belong to Mao Zedong Thought; it does not conform to the historical facts that Mao Zedong Thought is a real historical phenomenon and that his wrong thoughts in the Cultural Revolution were hailed to be the peak of Mao Zedong Thought; it does not make sense to place other leaders' thoughts or the collective wisdom of the party under the name of Mao Zedong's own thought; it can mislead people into fetish idolization, confuse the truth and the false, and blind people of the possibility that a whole group may make mistakes too. People ask how can Mao Zedong's own thoughts be excluded from Mao Zedong Thought, given that Mao's mistakes are so grave and so many (Guo, 2010). Deng acknowledged these opinions, but it is clear that Deng wants the resolution to clearly write about Mao Zedong's mistakes, but he is also determined to enshrine the term Mao Zedong Thought. The mix of loyalties to Mao, and the obvious need for economic reform heightened the dilemma for the participants. As adroitly summarized by one scholar, “Mao and Mao Thought can and must be criticized but cannot and must not be abandoned Indeed, it is far too early to let Mao's reputation die with him” (Weng, 1983: viii).

In June 1981, the *Resolution on Some Historical Issues about the CCP after the Founding of the PRC* was approved in the 6th Plenary of the 11th Central Committee, after twenty months of deliberation. The Resolution offered a formalization of how the party interprets Mao Zedong, his historical legacy, and Mao Zedong Thought. While the Resolution officially retained the phrase Mao Zedong Thought, it carefully and deliberately rejected the established interpretation of the concept which equated Mao Zedong Thought to Mao's own thoughts. When the term first appeared in 1943 as the brainchild of party theorist Liu Jiaxiang, and then reappeared in 1945 by top party official Liu Shaoqi, it clearly was meant to indicate the personal thoughts of Mao himself. However, the 1981 Resolution defined the term to mean the collective thoughts of the members of the CCP. The Resolution explained in detail that not all Mao Zedong's thoughts are contained in the expression Mao Zedong Thought, clarifying that most of Mao's thoughts that emerged later in life are expressly not included in the term

Comrade Mao Zedong's wrong leftist-leaning arguments to initiate the Cultural Revolution apparently derailed from the track of Mao Zedong Thought which is unification of Marxist-Leninist universal principles and China's specific revolutionary practices, and we must completely distinguish these from Mao Zedong Thought.

As this excerpt from the Resolution confirms, Mao the leader was separated from his Thought with rhetorically surgical precision.

Critically, the 1981 Resolution offered a delicate but substantive revision of Mao's historical legacy. Foremost it demystified Mao by transforming him from a deity to a fallible human being. The Resolution acknowledged that while the intent of the Cultural Revolution was consistent with Marxist-Leninist theory, its application was not, and the decade should be recorded in history as an unequivocal disaster. Most significantly, the Resolution clarified that during the Cultural Revolution, Mao own thought was not Marxist

The history of the Cultural Revolution has proved that Comrade Mao Zedong's principle theses for initiating his revolution conformed neither to Marxism-Leninism nor to Chinese Reality.

Since the publication of the Resolution in 1981, the phrase Mao Zedong Thought has appeared in all subsequent Reports of the CCP National Congresses. It has been formalized and has been retained in the CCP Constitution.

The Chinese Communists, with Comrade Mao Zedong as their chief representative, created **Mao Zedong Thought** by integrating the basic tenets of Marxism-Leninism with the concrete practice of the Chinese revolution. **Mao Zedong Thought** is Marxism-Leninism applied and developed in China; it consists of a body of theoretical principles concerning the revolution and construction in China and a summary of experience therein, both of which have been proved correct by practice; and it represents the crystallized, collective wisdom of the Communist Party of China. (*Party Constitution passed in 2007 at the Seventeenth National Congress of the CCP*)

Our quantitative analysis shows that the term Mao Zedong Thought appears in 121 documents, representing just over seventy percent of our overall data set. Therefore, the concept of Mao Zedong thought retains its resilience and is consistently prevalent in the formalized language of the CCP. However, its meanings before and after the 1981 Resolution changed significantly.

To better visualize the degree to which Mao Zedong Thought was rhetorically dislodged from Mao's own thought in the formal communication of the CCP, we used VOS cluster maps. To do this, we extracted from our dataset 395 paragraphs that mention Mao in various forms, such as Chairman Mao, Comrade Mao, and Mao Zedong. These paragraphs occur in texts that vary temporally from 1977 to 2016. Based on our interpretive reading of these texts, we identified 38 unique terms that co-occurred with Mao Zedong Thought. This involved collapsing similar terms—i.e. Chairman Mao, Comrade Mao, etc.—into one construct—i.e. Chairman Mao. The visual presentation of the co-occurrence of these terms is presented in Figure 1B.

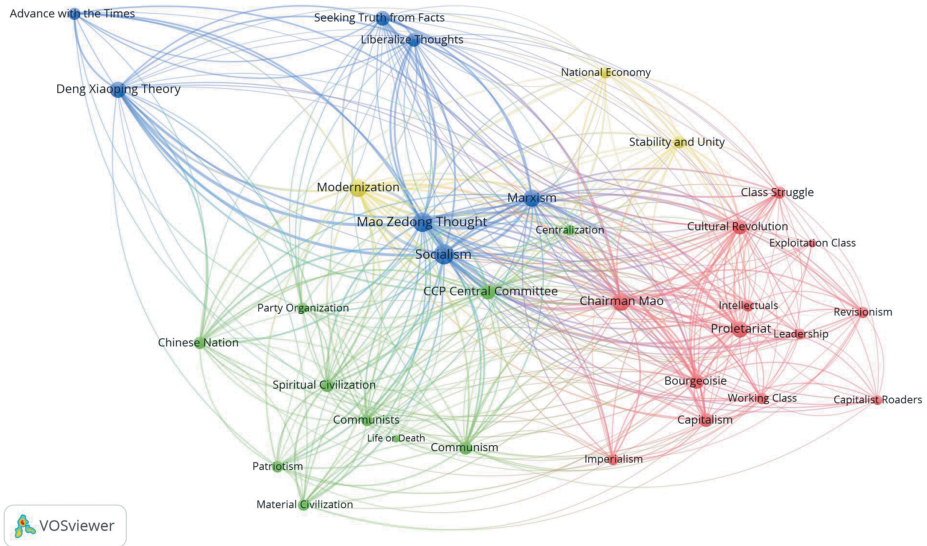


Figure 1B: Cluster Map of Mao Zedong Thought.

Figure 1B demonstrates that “Mao” the individual has been semantically dislodged from Mao Zedong Thought. Chairman Mao and the concepts most frequently associated with him in CCP formal communications are represented in the red cluster of terms. The foundational ideology, “Mao Zedong Thought,” and its associated concepts are presented in the blue semantic cluster. We see that not only is Mao rhetorically separated from his ideology, he is attached to highly problematic historical events such as the Cultural Revolution and to labels that he used in his radical ideological campaigns.

In contrast, “Mao Zedong Thought,” represented in the blue cluster, is not only noticeably cleaved from “Chairman Mao,” it is comfortably close to Socialism and Marxism and become close to “Modernization.” Perhaps most critically, “Mao Zedong Thought” is cozily proximate to the “CCP,” represented by the green cluster, whereas “Chairman Mao,” while still connected, is no longer close. The green cluster of the CCP is also, somewhat remarkably, associated with emerging new characterizations of the party captured in terms like “spiritual civilization” and most notably “material civilization.”

Upon further inspection of the content and time of publication of the 395 paragraphs, we found that the clusters clearly represent different historical eras. The red cluster, centered around “Chairman Mao,” mostly reflects the time before and during the 1981 Resolution. The other clusters largely reflect the more recent formal communications of the CCP. “Mao Zedong Thought” emerges as a rhetorical construct in the new era that is distinctly separate from “Chairman Mao,” clearly illustrating the rhetorical strategy of the CCP.

Thus, the rhetorical strategy of casuistic dislodging had three critical effects that helped the CCP promote economic reform. Foremost, it detached CCP ideology from Mao the person, and made it a collective construct. This allowed the term Mao Zedong Thought to become historically attributed to other party members beyond Mao, particularly Deng Xiaoping. Second, moving away from a literal or close reading of Mao's words relaxed the boundary conditions of the phrase, thus permitting it to be associated with other terms, like "modernization" and "national economy," that facilitated the adoption of economic reforms. Concurrent to this new articulation, Mao's statues that had been erected all over the country were quietly taken down. His radically leftist concepts were circumvented. Finally, and perhaps most importantly, it retained the connection to broad principles of the CCP, most particularly the comforting terms such as "working class" and "relationship between the party and the people," which were clearly designed to make the reform a gradual extension of historical progress, thereby preserving the legitimacy of the CCP.

Although the separation of Mao Zedong Thought from Mao is almost linguistic trickery, it unleashed significant changes in material structures and practices. The explicit and firm evaluation of Mao's mistake was accompanied by the end of Hua Guofeng's central leadership in the CCP. Because Hua was handpicked by Mao as his successor, his removal was made legitimate with the criticism of Mao's mistakes. The *Resolution* concludes: "It is apparent that it is impossible to have him lead the correction of the leftist-leaning mistakes inside the party and revive the fine tradition of the party." Hua's removal meant that the reform-minded Deng Xiaoping became the de facto leader. Another immediate material effect of the rhetorical shift was the systematic removal of Mao's statues from numerous public squares and work units across the country.

Casuistic Merging

We use "casuistic merging" to describe the creation of a new concept by combining existing concepts that customarily are never used together. There might be several reasons why these concepts have not previously been placed side by side as a unified concept. First, they may be concepts that are considered to be closely related, so that there seems to be no need to combine them. The linguistic formulation "Socialism with Chinese Characteristics" in 1982 is a prime example, which is discussed in detail in this section. Second, the concepts may be unrelated, so that it would be unusual to conjoin them. For example, uniting the terms "socialism" and "the primary stage" into the linguistic formulation "The Primary Stage of Socialism" in 1987 gave birth to a new sense of China's socialist stage in the present. Finally, the concepts may be regarded as incongruent or contradictory, so that uniting them would produce an oxymoron. For example, "socialism" and "market economy" used to be treated as opposites in China.

However, merging them into the linguistic formulation “Socialist Market Economy” in 1991 proved to be essential for characterizing China’s economic system. Figure 2A represents the merging terms to create one of the most central phrases in the reform era: “Socialism with Chinese Characteristics.”

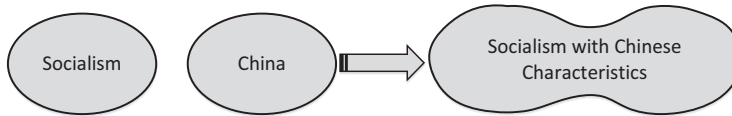


Figure 2A: Casuistic Merging.

“Socialism with Chinese Characteristics.” The slogan “Socialism with Chinese Characteristics” first appeared as formalized language in a speech delivered by Deng Xiaoping to open the party’s 12th National Congress in September 1982. The following excerpt from that speech demonstrates the rhetorical skill of merging two subjects previously considered similar yet never used together into a new holistic concept that is presented as a natural application of ideological principles and an inevitable process of historical evolution

In carrying out our modernization program we must proceed from Chinese realities. Both in revolution and in construction we should also learn from foreign countries and draw on their experience, but mechanical copying and application of foreign experience models will get us nowhere. We have had many lessons in this respect. We must integrate the universal truth of Marxism with the concrete realities of China, blaze a path of our own and build a Socialism with Chinese Characteristics—that’s the basic conclusion we have reached after reviewing our long historical experience.

This slogan reflects Deng’s attempt to negotiate the conflict between the past and the present. Before and during the Cultural Revolution, class struggle dominated the ideological discourse and China self-identified as an exemplar of socialism. However, as Deng embarked on economic reform, China’s “concrete realities”—poverty, backward economy, and low productivity—became the “brute facts” that no one could ignore. Deng once said to Gorbachev that although China had debated with the Soviet Union what is socialism for a long time, none of them had really grasped the concept (Deng, 1993). Deng clearly intended to adopt economic practices that are proven to be effective in the West, and yet he was also adamant about adhering to socialism. The resulting slogan highlights the uniqueness of China’s version of socialism, implying that what China does may appear capitalist, but it is socialist in principle.

The slogan proved popular with the media and re-appeared as formalized language in the Party Report of the 13th National Congress of the CCP, which was delivered in 1987 by the Party General Secretary, Zhao Ziyang. Zhao’s Report was titled *Advance along the Road of Socialism with Chinese Characteristics*. The Report added important theorizations to this slogan by inventing another new concept through ca-

suistic merging. He did so by redefining China's current stage of socialist development as the "Primary Stage of Socialism." Not only is China in the Primary Stage, the Report estimated that this stage will last well into the future

The Primary Stage of Socialism is not a generalized concept that points to the initial stage that any country entering socialism will undergo. It is a specific concept that points to the special stage that our country must undergo as we build socialism under the conditions of a backward production force and an undeveloped commodity economy. From completing the socialist reform of private ownership in the 1950s, to basically accomplishing the socialist modernization, it will have taken at least a hundred years, and these all belong to the Primary Stage of Socialism.

Zhao's Report further elevated the significance of this historical stage by positioning it as one of "two historic leaps" in the sixty-year history of the CCP's effort in applying Marxism in the practical conditions of China. Zhao observed that the "first historic leap" occurred in the New Democratic Revolution (i.e., 1919–1949), whereby the CCP led the proletariat revolution. The "second historic leap" is marked by the 3rd Plenary of the 11th National Congress of the CCP in 1981 because the CCP "began to find a road to build Socialism with Chinese Characteristics and blazed a new stage of socialist development." It is remarkable that by extolling these two historic leaps, Zhao omitted more than 30 years in between the two periods. This selective narrative of history constructs the monumental status of the economic reform ushered by Deng Xiaoping, both in terms of how it represents a significant breach with the recent past and in terms of how it is a continuation of the CCP's innovative spirit in applying Marxism in China.

Zhao's rhetorical construction of history is also an effort to justify economic reform as consistent with the tenets of Marxist historical materialism. In his Report, Zhao criticized the extreme left of the CCP which assumed that China could achieve socialism without achieving advanced modes of economic production. Instead, Zhao argued, the CCP's roadmap for building Socialism with Chinese Characteristics is the pursuit of economic development, which, according to the Report, was entirely consistent with dialectical materialism

This stage is different from the transitioning period when the economic foundation of socialism is still not built; it is also different from the stage where socialist modernization has been realized. The principle contradiction facing our stage is the contradiction between people's growing material and cultural needs and the backward social production. Class struggle will still exist for a long time at some degree, but it is no longer the principle contradiction. In order to resolve the contradiction of the current stage, we must greatly develop a commodity economy, increase the efficiency of labor production, gradually accomplish the modernization of industry, agriculture, national defense and science and technology, and we must reform the part of production relations and super-structure that do not fit the development of the production force.

By introducing the idea that China is only at the first stage of socialism and is on a fairly long road of building Socialism with Chinese Characteristics, Zhao cleverly adopts a teleological interpretation of Deng Xiaoping's slogan, Socialism with Chinese Characteristics, to

plant the seed in China's collective understanding that the institutions of capitalism can be successfully adopted and transformed into a superior form of Chinese socialism.

Over a span of the next thirty years, the slogan of Socialism with Chinese Characteristics appeared in the title of Party Reports of every National Congress. This frequency of promotion of a slogan is unprecedented in the history of the CCP and testifies to the centrality of the slogan in the party's use of rhetorical history to legitimate contradictory claims and practices. Not surprisingly, many new theorizations, market institutions, and capitalist practices promoted by new leaders of the CCP have been justified under this umbrella banner, from Jiang Zemin's theory of the "Three Represents" which opened the party to private entrepreneurs, to the listing of SOEs on oversea stock exchanges.

This new slogan connotes a novel understanding of both socialism and China: China no longer exemplifies socialism, but rather it defines a new form of socialism. Using the phrase "Chinese characteristics" to modify socialism, in combination with the idea that China is only at a primary stage of socialist evolution, stimulates a sense of urgency and promotes the need to adopt even greater economic reforms to advance China along the path to higher forms of socialist enlightenment. More significantly, it adopts the rhetorical strategy of teleological history in which historical events are understood as rational stages of evolution in order to progress to some utopian goal. It constructs a narrative of Chinese economic reform that "naturalizes" the massive ideological disjuncture of incorporating capitalist institutions and practices in a communist political system. By placing this ideological rupture in a long-run narrative of evolution to a higher order of socialism, the CCP successfully emphasizes the disruptive and revolutionary nature of the change while at the same time presenting it as a stable, continuous, and natural historical progression from one stage to another.

Figure 2B represents our VOS analysis, which was constructed by identifying and extracting the 944 paragraphs that contain the term "socialism with Chinese Characteristics" from 180 documents in our dataset. We identified and calculated the co-occurrence of 46 terms. For ease of visualization, we deleted the four least frequently occurring terms.

The semantic cluster map clearly demonstrates how casuistic merging produced a new concept that is centrally embedded in the CCP's rhetoric of change and its legitimacy. The green cluster reflects the CCP's efforts to construct a coherent historical rationale for China's economic reform. The "3rd Plenary" of the 11th National Congress is the "historical" moment of change when the CCP openly acknowledges that China "lags behind" economically. To build socialism in China, the CCP argues, will require "Marxism" to be combined with China's unique "national conditions" as part of the natural evolution of the "primary stage" of the socialist "history." Thus, the cluster map captures Deng Xiaoping's strategy of legitimating the combination of capitalism and socialism. The red cluster highlights two terms with which Socialism with Chinese Characteristics has become most strongly associated: "reform" and "scientific," reflecting the Party's self-conception of its mandate and nature. This cluster also contains the newer theories such as Jiang Zemin's "Three Represents" and Hu Jintao's "Development Outlook."

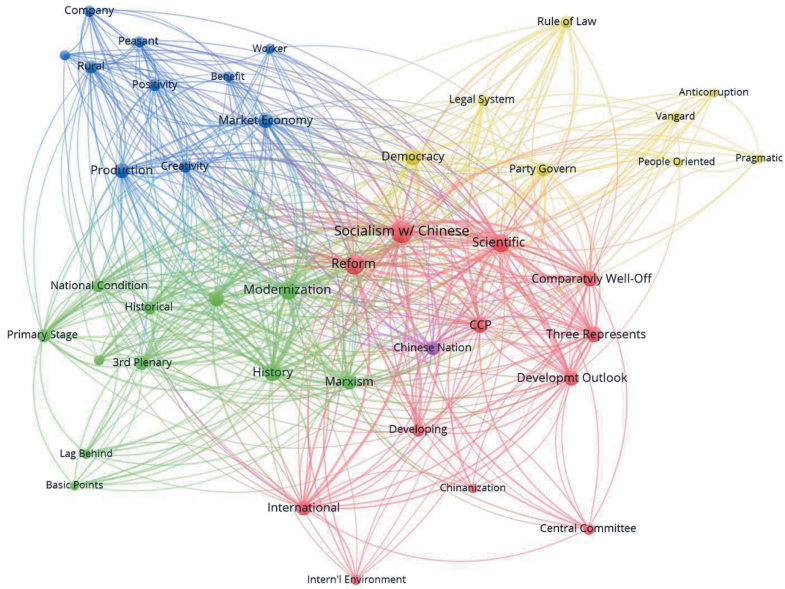


Figure 2B: Cluster Map of Socialism with Chinese Characteristics.

The blue cluster is directly related to the economic domain, reflecting key slogans of Deng Xiaoping, such as the “Three Benefits,” which emphasizes the importance of focusing on developing the production force. Key constituencies of the CCP, including “peasants” and “workers,” were also the main agents in this reform, and their “creativity” and “positivity” were called for and acknowledged. The yellow cluster contains more recent efforts by the CCP leaders to articulate the ideals for the institutions in China: “democratic,” “legal system,” “rule of law,” “governed” by a party that is “people-oriented,” “vanguard,” and committed to purge “corruption.”

The umbrella phrase “Socialism with Chinese Characteristics” contained a negation—that the socialism China practiced in the past was inadequate. The irony lies in using “Chinese characteristics” to denote deviation from standard “socialism” when the CCP had always regarded China as the model of a socialist country. As Carlson (1992) observed, “The contradictions may then be juxtaposed so that an ironic synthesis of terms will clear the way for a change in consciousness” (p. 22). Public acknowledgement of the backward economy and the need for change shifted people’s understanding of China’s identity and priorities, as well as the nature of market. This shift in consciousness enabled transformational and revolutionary changes in material structures and practices. Market mechanisms replaced central planning in core areas such as factor markets and labor markets, numerous small and medium SOEs were privatized, stock markets became some of the largest in the world, private enterprises surpassed SOEs as the main employers and contributor the GDP, and private entrepreneurs were allowed to

join the Communist Party. China's economic outlook became astonishingly capitalist (Nee & Oppen, 2012). However, by characterizing it as "Socialism" and "with Chinese Characteristics," it was to be understood and experienced accordingly.

Casuistic Substituting

We define "casuistic substitution" as the process of replacing elements of a linguistic formulation with new ones that seem to be identical but that are different in subtle yet important ways. The opening story, painting black strips on horses to make them look like zebras, is an allegory that uses this rhetorical process. To be sure, casuistic substituting often involves the first two casuistic strategies, that is, the original meanings of terms are wrenched loose or changed. However, the strategy of casuistic substitution emphasizes the important and unique roles played by the "painted horses": their black stripes mark shockingly radical change (i.e., the horses no longer look like horses), yet the animals also convey a sense of reassurance that the change does not fundamentally compromise principles (i.e., despite the stripes, they are still horses).

The rhetorical technique of substitution was critical in the process of legitimizing economic reform in China. Despite the successful adoption of several institutionalized practices of the free market system beginning in 1978, it took fourteen years for the party to officially use the slogan "market economy" in formalized language. Between 1978, when economic reforms first began, and 1992, when then Party Secretary Jiang Zemin formally named China's economy a "socialist market economy," the CCP employed a series of slogans to label the incremental transition of China's economic system from a planned to a market economy. Each new slogan contained elements of the old system of central planning but strategically adopted new elements that connoted the adoption of a market ideology. Figure 3A maps the casuistic move from the system of central planning to that of the market with concepts representing contradictory ideologies combined through casuistic merging.

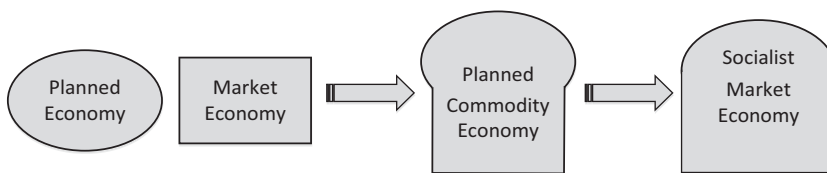


Figure 3A: Casuistic Substituting.

From “Planned Economy” to “Socialist Market Economy.” The renowned Chinese economist Wu Jinglian writes that the phrase “market economy” was first proposed in 1978 to form part of the formalized language of the CCP at a conference held by the State Council to discuss economic reform in China (Wu, 1992). The proposal was de-

nied because the term was considered to be synonymous with capitalism, just as the term “planned economy” was seen to be synonymous with socialism. The term “market economy” therefore contributed to “spiritual pollution” and should not appear in formalized language. Faced with forceful resistance, economic reformers in the CCP engaged in a gradual strategy of casuistic substitution, an incremental process of introducing over a period of fifteen years slightly different terms or “painted horses” that would ultimately culminate in the term “socialist market economy,” which debuted in the 1992 Party Report delivered by Jiang Zemin, the General Secretary of the CCP and the successor to Deng Xiaoping.

The first “painted horse” used to bridge China’s transition from planned to market economy was the somewhat clunky phrase “planned economy as primary, market adjustment as auxiliary.” The term was officially introduced in the Report to the Party’s 12th National Congress in 1982:

Planned production and distribution of products is the mainstay of the economy. . . . Some products can be adjusted by the price mechanism in areas specified by the state. . . . Market adjustments are supplementary, subordinate to, and secondary to state planning. (*Party Report delivered in the 12th National Congress in 1982*)

The phrase was drafted by Chen Yun, an influential economist and elder member of the party, whose framing connotes his theory of China’s “bird cage economy” in which the market (represented as a bird) could be permitted only within the established institutional constraints of the State (the birdcage). The bird, Chen explained, “must not be held tightly in the hand or it will die. It should fly, but only within the cage; without a cage it will just fly away” (Li, 1995: 290). Chen Yun’s formulation was soon seen as too constraining because it places absolute primacy on central planning.

In 1984, at the 3rd Plenary of the 12th Central Committee of the Party Congress, a slightly new term—“planned commodity economy”—was introduced into the formalized language of the CCP in a *Decision on Economic Reform* by Premier Zhao Ziyang. This phrase was less cumbersome than the awkward mouthful “planned economy as primary, market economy as auxiliary.” It also more directly signaled the intended direction of economic reformers within the party. The Decision states that a “full-blown” development of commodity economy is a period that cannot be bypassed and is a necessary condition for the modernization of the national economy. The Decision clarifies the relationship between planned and commodity economy

To reform the planned system, we should first break away from the traditional notion that sees planned economy and commodity economy as contradictory. . . . The planned economy and the development of the commodity economy are not mutually exclusive but unified. It is incorrect to pit one against the other.

In 1987, Zhao Ziyang formally used “planned commodity economy” as the overarching term to define China’s socialist economy in the Report of the 13th National Congress of the CCP

Socialist economy is a **planned commodity economy** based on public ownership. This view is a scientific summarization of socialist economy by our party, a significant development of Marxism, and the fundamental theoretical ground for our country's economic system's reform.

Zhao also introduced a new substitute term, "the state mediates the market, the market guides the enterprises," in the Report to the 13th Party Congress as an extension of the now popular term "commodity economy." The 1987 Report affirms that commodity economy is still not well developed and needs to be vigorously pursued. The new phrase further changed the relative status of plan and market, relegating the role of the state from doing planning to just mediating, shrinking the scope of those commodities that were under a mandatory plan, elevating the market to a more central role in relation to enterprises, and explicitly expanding the boundaries of the market to the scope of the entire society.

Planned commodity economy is different from a capitalist economy. The relation between the state and market is "**the state mediates market, market guides enterprises.**" Namely, the state uses economic, legal, and necessary administrative means to adjust the relationship between supply and demand in the market, creating an appropriate economic and social environment so that the market can guide enterprises to correctly make operational decisions.

In the meantime, the Report once again reassured party members that although "commodity economy relies on the growth and perfection of market, using market adjustments absolutely does not equate to adopting capitalism."

The economic retrenchment in the years between 1989 and 1992 saw the strengthening of the bird cage theory and systematic suppression of market mechanisms. However, a wave of new theorizations for the adoption of the phrase "market economy" also emerged. For example, economists such as Wu Jinglian published many lengthy articles arguing that "commodity economy" is indeed the same as "market economy." Deng Xiaoping took a firm position during his 1992 tour to the south, arguing that "plan" and "market" are both economic means; therefore, socialism can use "market" as long as it achieves socialist ends (Deng, 1993). Deng's tour and the national debate that it triggered between those who upheld the primacy of central planning and those who espoused the primacy of market led to a shift in the CCP's policy orientation (Fewsmith, 2001).

The 1992 Party Report that Jiang Zemin delivered at the 14th Party Congress adopted the phrase "market economy"

The **socialist market economy** is one in which "market plays a fundamental role in allocating resources under the macro adjustment of the socialist state.

Since then, this overarching slogan has been firmly ensconced in the official linguistic formulation of China's economic system. Subsequent national congress Party Reports all referenced the event of the 14th National Congress, regarding Jiang's official coinage of this phrase as a significant and history-defining moment in China's economic reform. This Report defines the "socialist market economy" as one in which "market

plays a fundamental role in allocating resources under the macro adjustment of the socialist state.” Here “market economy” is not only discussed explicitly in reference to price mechanism and supply and demand, but also to higher returns, incentive, competition, and survival of the fittest— notions that point to a more full-fledged market system. This new phrase upended the “bird cage economy” metaphor and portrayed the market as a more basic and ubiquitous process in the system. Once “market economy” was adopted, the previous phrase “commodity economy” disappeared from official language.

The transition between official terms does not reveal the high degree of intense debate, contestation, and conflict that occurred behind the scenes as old terms were disbanded and new phrases brought into play. Reformers and conservatives fought hard on the elimination of each word, and negotiated strenuously on the selection of its substitute. These contentious struggles demonstrate that party officials were highly sensitive to the fact that a sudden shift in the language of economic reform ran the risk of intensifying contradictions and diminishing the legitimacy of the CCP.

Throughout this process, the gradual evolution of new terminology to describe China’s economy subtly shifted the historical standard of measuring progress away from standards of political class inclusion and worker equality and toward more westernized standards of economic performance. The introduction of each new word was typically accompanied by the declaration of a “New Era” of socialism in which the national historical myth of progress was dramatically rewritten. Freeing the Chinese worker of the shackles of foreign oppression was only a first stage in the evolution of socialism. China would be truly free only when the Chinese worker was as—or more—efficient and productive than workers of their foreign oppressors. The new words helped to mask the transition of China’s workers from horses to zebras.

To construct VOS maps, we extracted 2491 paragraphs from our dataset that contain at least one of three terms: plan, commodity, or market. These paragraphs range from 1977 to 2017. We identified 56 key terms from these paragraphs and assessed their co-occurrence. We further divided the data into two periods, 1977–1992 and 1992–2017. Figure 3B shows the relatedness of the top 40 terms in 1977–1992, during which time the official discourse moved from “Planned Economy” to “Commodity Economy.” Figure 3C shows the relatedness of the top 40 terms after 1992, when “Market Economy” was made official.

In both cluster maps, the central terms are “enterprise,” “manage,” “operate,” and “product,” which is not surprising because under the system of central planning, factories are simply a tool for the state and have no authority over what products to make, how to make them, and how to distribute and sell them. That is all decided by the Central Planning Commission. So a central part of the reform is to give administrators of factories and stores the right to manage their people and run their business.

The red clusters in both maps capture the phenomenal change of vocabulary between the two periods. In Figure 3B, the red cluster gives a clear visual map of the historical migration from “planned economy,” with its associated terms like “adminis-

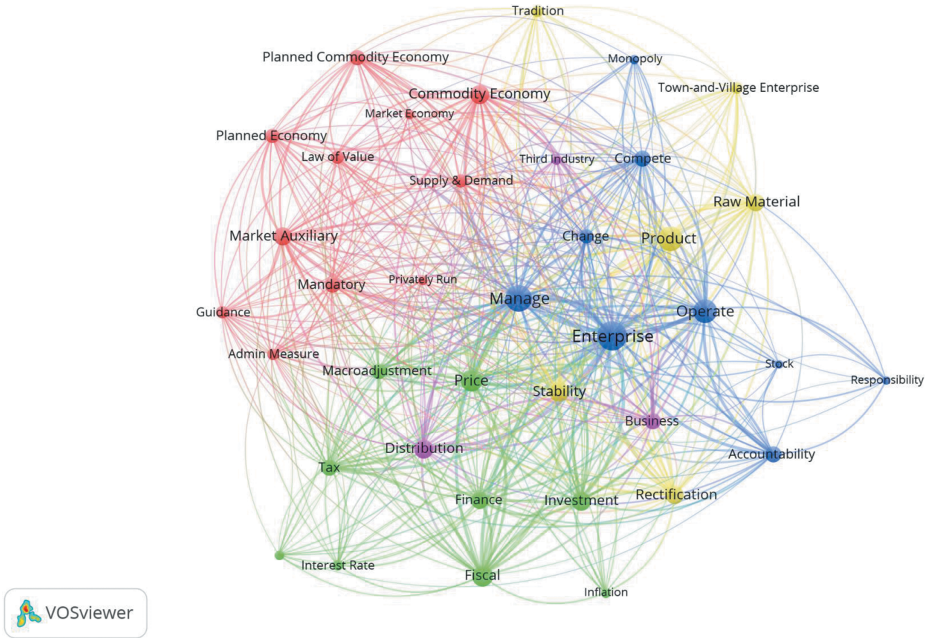


Figure 3B: Cluster Map of Planned Economy to Commodity Economy (1977–1992).

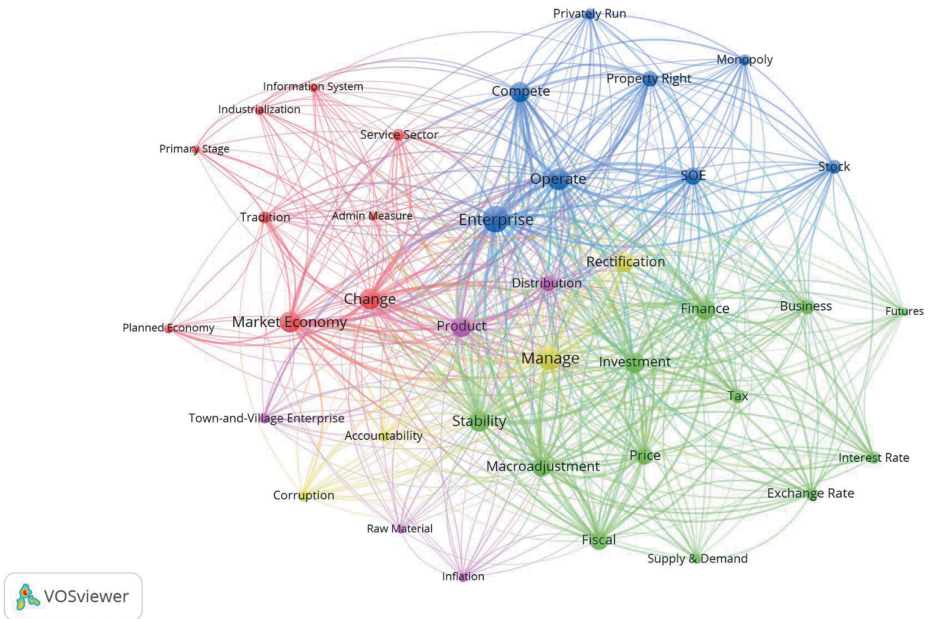


Figure 3C: Cluster Map of Market Economy (1992–2017).

trative measures,” “mandatory plan,” and “market as auxiliary,” to “planned commodity economy” and then to “commodity economy.” The term “market economy” is very small. Figure 3C shows “market economy” as the biggest term in the red cluster, “planned economy” barely exists (in fact, when planned economy was mentioned in these latter years, it was used to remind people that China has moved away from planned economy), and “commodity economy” completely vanished, indicating that its temporal function has been fulfilled.

The blue cluster also reflects dramatic changes between the two periods. In the “commodity economy” period, shown in Figure 3B, enterprise reform is more about talking about “change” and “competition” and giving managers “responsibility” and “accountability.” In the “market economy” period, shown in Figure 3C, “property right” becomes a more dominant issue, and SOEs occupy a much more prominent position, reflecting the effort of the CCP to restructure SOEs into shareholding companies that issue “stocks.” The green cluster represents the macroeconomic domain, with both maps featuring “macro-adjustment,” “price,” “fiscal,” “tax,” “investment,” “inflation,” and “interest rate.” Again, Figure 3C features more recent phenomena, such as “exchange rate” and “futures,” representing the continued effort of the CCP to integrate into the global economic system.

A comparison of Figures 3B and 3C suggests that the mechanisms of a market economy—the price mechanism, the law of value, supply and demand, and competition—were all introduced at the early years of the reform. Yet the party took pains to create strange terms and phrases such as the euphemism “commodity economy,” reflecting a difficult compromise between clashing ideas and politics at the top of the party leadership. Zhao Ziyang, the Party Chief who steered the reform in the 1980s, reflected on the gradual nature of China’s transition

As the market sector grew day by day, China’s economic system eventually experienced a qualitative change, even without fundamental reforms of the original economic model of state planning. This is the principle reason that economic reform in China has not only promoted prosperity, but also maintained political stability” (Zhao, 2009: 126).

Casuistic substitution accompanied some of the most innovative, but also controversial, organizational and economic arrangements during the reform era. These “painted horses” are neither horses nor zebras, but can be seen as both. New organizational forms such as town-and-village enterprises (TVEs) and new pricing systems such as the double-track system best exemplify the duplicity of these arrangements. TVEs grew out of small enterprises in villages and towns and were neither SOEs nor private enterprise, but resembled both. TVEs allow entrepreneurs to build ventures based on market demands while being ultimately controlled by local governments. The double-track system is an institutional innovation in pricing. It allows goods to be traded on the market based on demand and supply while still being distributed based on the prices set by the central planning system. It nurtures the growth of a market outside of the plan and then allows the market to replace the plan. At first, the market track only existed for a

few production factors, but, as price reforms deepened, it grew to include almost everything, leading to the ultimate elimination of the plan track. Innovations such as TVEs and the double-track system allowed China to operate simultaneously following two different principles—a socialist planned economy and a capitalist market economy. Unlike the shock therapy model, which completely privatized SOEs and abandoned central control of pricing, China's hybrid organizational forms and pricing systems straddled opposing principles.

TVE and the double-track system were legitimized through the ironic synthesis of contradictory institutional arrangements. Here casuistic substitution serves important cognitive and symbolic functions. The “painted horses” were a bridge that nurtured cognitive acceptance crucial for institutional change. As Zhang Weiying later noted, the beginning of the reform had no real zebras, only horses. Therefore, making horses look like zebras began to subtly and gradually familiarize people with the look of zebras. This strategy effected institutional change despite intense confrontation, and it warded off strong resistance. In response to accusations by hardline socialists, reformers could always say that these animals were simply decorated horses. A sudden shift of official language, although facilitative for the introduction of market practices, could disrupt the system, intensify contradiction, and diminish leaders' legitimacy. The casuistic strategy of substitution was able to gradually undercut the symbolic power of one ideology and strengthen the symbolic power of the other. Words, phrases, and arguments that mildly deviated from the established ideology were introduced first, while those that were closely related to the opposite ideology were adopted last. Step by step, the change agent could carefully orchestrate the co-evolution of the material and the symbolic, thus transforming the official language into a new system of meaning.

Casuistic Stretching

We use “casuistic stretching” to describe a rhetorical technique that expands the boundary conditions of a concept to accommodate new elements while keeping the linguistic formulation intact. Typically, this occurs in response to new cases or phenomena that defy a preexisting concept. Casuistic stretching produces apparent benefit because by changing the intension and extension of a term without changing the actual signifier, it allows for change and stability to coexist. However, Burke (1984[1937]: 229) noted serious limitations to our ability to rhetorically stretch a concept. Going too far, he observed, would lead to “demoralization.” When a concept is stretched too far from its central principle, it triggers emotions of nostalgia and guilt because of a violation of an implicit natural order or hierarchy (Carlson, 1992).

Economic reformers in the CCP were very sensitive to the dangers of reaching the limits of casuistic stretching. However, this did not prevent them from trying to find but not pass the breaking point. A change in the linguistic formulation of terms that are central to the ideological discourse may indicate the breaking point. Hence the

exact language of these terms needs to be preserved while the boundaries are expanded. The CCP's use of casuistic stretching is perhaps most apparent in their efforts to alter the meaning of the final pillar of socialist ideology—the public ownership system. While the party was willing to abandon some foundational concepts such as “planned economy,” it realized that abandoning the phrase “public ownership system” (公有制) would go too far. In China's discourse, public ownership is the defining element of socialism, just as private property rights are the foundational basis for capitalism. In studying China, many scholars have focused on the important institution of property rights and ownership and have documented the actual changes (Naughton, 1995; Steinfeld, 1998). Yet few recognized that the core term describing the nature of the system of property rights and ownership in China never changed. As we demonstrate below, the CCP took great care in managing the use of the term in formalized language while effectively dismantling a significant portion of public ownership in the Chinese economy. Figure 4A elucidates casuistic stretching in which a concept representing one ideology is stretched in its scope to the extent that it almost means the opposite ideology.

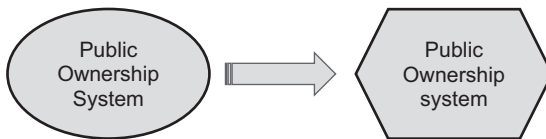


Figure 4A: Casuistic Stretching.

The “Public Ownership System.” Even after the economic reform, the terms “private ownership system” and “privatization” have always been rejected in the official discourse. For example, in the Report to the 3rd Plenary of the 13th Central Committee of the CCP in 1988, the CCP states that “Our SOEs will absolutely not take the road of privatization” and that turning SOEs into shareholding companies is not privatization, but instead, it clarified previously general and unspecified ownership rights to rationalize the behaviors of enterprises. Today, China has passed laws to protect private property rights but does not consider the new economic order to be anything close to the nature of property rights that defines the capitalist economic system.

In fact, the idea that the economic means of production are public property is so central to the socialist nature of the country that abandoning this term would indicate abandoning Marxist and communist ideology altogether. For example, the 1982 Party Report claims that the concept “public ownership system” is the “fundamental system of our country's economy and cannot be undermined in any circumstances.” The term appears regularly in Reports of national congresses throughout the 40 years of reform, always featured as the basis of the socialist economic system and the mainstay of the economy.

However, the intension (i.e., the internal content or meaning of a term) and extension (i.e., its corresponding sets of objects and things in the world) of the public ownership system have been stretched to accommodate new content and practices. In the 1987 Party Report, while the CCP acknowledged the public ownership system as the mainstay, it explicitly encouraged the development of a variety of property ownership types such as individual enterprises and private enterprises, and specifically listed several financial investment instruments

Develop many ownership types . . . The existence and development of **private-operated economy** are allowed, . . . Financial market, . . . issuing bonds and stocks, are all inevitable phenomena accompanying the socialization of production and development of a commodity economy, and are not unique to capitalism.”

The 1987 Party Report also emphasizes the separation between the rights of ownership and the rights of operation with regard to the public enterprises, specifying that the general managers of factories should be in charge of the actual operations and accountable for profits and losses, and that the state must change its management of public enterprises from direct supervision to indirect guidance. This helps public enterprises or SOEs become more autonomous economic actors instead of just tools of the state.

The 1987 Report further extends the forms of the public ownership system from public enterprises or SOEs directly owned by the state to enterprises that are owned by various government agencies and town and villages

The forms of the **public ownership system** include enterprises that are jointly established by **all-people ownership** and **collective ownership**, as well as enterprises in which various regions, government agencies, and enterprises buy each other's shares.

Here the concept “public ownership system” was broken into many subcategories, distinguishing between all-people ownership and collective ownership, as well as ownership by different local governments and agencies. Such vocabulary highlights for the first time in China's history that the idea of “who” owns the enterprises must be clarified. This vocabulary is accompanied by the central government delegating its ownership to local authorities and SOEs and by the intensification of market-based economic exchange among different types of enterprises and the adoption of market-based incentive systems in public enterprises.

The 1987 Report also introduces an emergent form, “the shareholding system (股份制),” referring to enterprises that sell shares to the government, agencies, and even individuals. Whether “the shareholding system” belongs to the public ownership system stimulated societal-wide debates and controversies. The party refrained from putting it into a category, instead letting it stand as a category of its own. In the meantime, thousands of enterprises, mostly collectively-owned enterprises and SOEs, issued shares. The over-the-counter (OTC) market was established in 1987, and the stock exchanges opened in 1990.

Despite the popularity of the shareholding companies, the party made clear that this is not a form of privatization

Our SOEs will absolutely not take the road of privatization. . . . Turning SOEs into **shareholding companies** is not privatization, instead, it clarified previously general and unspecified ownership rights to rationalize the behaviors of enterprises. (*Report to the 3rd Plenary of the 13th Central Committee of the CCP in 1988*)

The concept “public ownership system” obtained drastically new meanings in the Report of the 15th National Congress of the CCP in 1997 by Jiang Zemin

We should understand the meaning of **public ownership system** economy in its entirety. **Public ownership system** economy includes not only state-owned economy and collective economy, but also the **state-owned elements** and **collectively-owned elements** in the mixed ownership system economy. The position of **public ownership system** as the main body is reflected primarily in the following ways: public assets occupy the superior position in the total assets of the society; state-owned economy controls the sinews of the nation’s economy and plays a guiding function in the economic development With regard to the superiority of public assets, there should be superiority in terms of quantity, but more importantly, attention should be paid to improvement in quality. The guiding function of the state-owned economy is primarily reflected in its power to control. We should adjust strategically the composition of the economy. For important industries and key areas that are sinews of the nation’s economy, state-owned economy must occupy the dominant position. In other areas, we can strengthen the focal points and improve the quality of **state-owned assets** through asset reorganization and structural modification. As long as we insist on the **public ownership system** being the main body, the state controlling the sinews of the national economy, and improving the controlling power and competitiveness of the state-owned economy, some reduction of the weight of the state-owned economy will not affect the socialist nature of our country.

In addition, the 1997 Party Report states

There can and should be diverse ways to materialize the **public ownership system**. All kinds of ways of operation and forms of organization that reflect the laws of socialized production can be boldly utilized. We should strive to find ways to realize the **public ownership system** that can advance the production force immensely. The **shareholding system** is a form of organizing capital for modern corporations; it is conducive to the separation of ownership right and operation right, and conducive to the increase of the operating efficiency of the enterprise and capital; capitalism can use it, and socialist can also use it. There should not be generalized statements about whether the **shareholding system** is public-owned or private-owned; the key is to see who has the controlling right of shares. When the state and collectives control the shares, these shares have an apparent nature of being publicly owned; this is conducive to enlarging the scope of dominance of **public capital**, and enhances the **public ownership system**’s function as the main body. Currently the numerous **joint stock cooperative system economies** that emerge in urban and rural areas are a new phenomenon in the reform, and should be supported and guided, the experience should be continuously generalized so that the new phenomenon will be gradually perfected. **Collective economies**, for which the joint labor and joint capital are main forms, should be particularly advocated and encouraged. (*Report of the 15th National Congress of the CCP in 1997 by Jiang Zemin*)

The 1997 Party Report made two innovative rhetorical moves that changed boldly the intension and extension of the concept of the public ownership system. First, the Report defines the superiority of public assets as not only about the quantity of SOEs, but more importantly about quality, which means the control of strategic sectors and industries by SOEs. The reorientation from the quantity to the quality of SOEs helped justify the reduction of the number of SOEs in the economy. It also helped justify the fast pace of restructure and reorganization in many non-strategic sectors and regions. The new interpretation also represents the Party's realization that ownership is a form of control, and the state need not operate those enterprises to ensure the public ownership system, hence the socialist nature of the country.

The second innovation of the 1997 Party Report is the extension of the concept of "public ownership system" to accommodate new cases. Specifically, it broadened the economic forms that can be called "public ownership system" from purely state-owned and collectively-owned enterprises to company stocks held by state and local governments, governmental agencies, and collectives. Whereas the 1992 Party Report acknowledged the existence of the shareholding system and the interpenetration of different ownership structures, i.e., public ownership and private ownership, the 1997 Party Report explicitly categorized a company's shares owned by the state and collectives as part of the "public ownership system." As many began to question the ideological nature of numerous SOEs that restructured into shareholding companies, the 1997 Party Report determined that the "public ownership system" not only applied to companies owned completely by the state or collectives, but also to these SOEs that turned into shareholding companies.

The 2002 Party Report further developed what it meant to belong to the public ownership system. For the first time, the concept "state-owned capital" appeared in the Report, suggesting the Party's realization that to claim public ownership, the state need not even own material assets such as factories and machines. Instead, the state needs only to own the capital by being the shareholder of a company to claim public ownership. The 2002 Party Report reads

Except for an extremely few number of enterprises that must be solely owned by the state, the shareholding system should be actively promoted, and the mixed ownership system should be developed. The investors should be diversified, and the state will control the shares of important enterprises.

"Public ownership system" remains a fundamental concept throughout the reform period. However, the party has changed both the intension and extension of this concept through the casuistic practice of stretching. Its substantive meaning changes from emphasizing direct control of operations to the ownership of material assets such as factories, machines, and land, to the ownership of capital assets, such as stocks. In terms of the extension of this concept, the range of cases that it can cover extends from enterprises solely owned and operated by the state and collectives to any shareholding companies with shares owned by the state or collectives.

Figure 4B illustrates the VOS map of the terms. To construct this map, we extracted 342 paragraphs that mention “public ownership system,” ranging from 1977 to 2017. We identified 45 key terms and calculated their co-occurrence. The green cluster contains Marxist reasonings for the centrality of the term “public ownership system:” in the dialectic relations between the “production force” and “production relations,” the “means of production” is an important material factor in the production force, and its ownership reflects the nature of production relations. The public ownership system thus disguises “socialism” from “capitalism.”

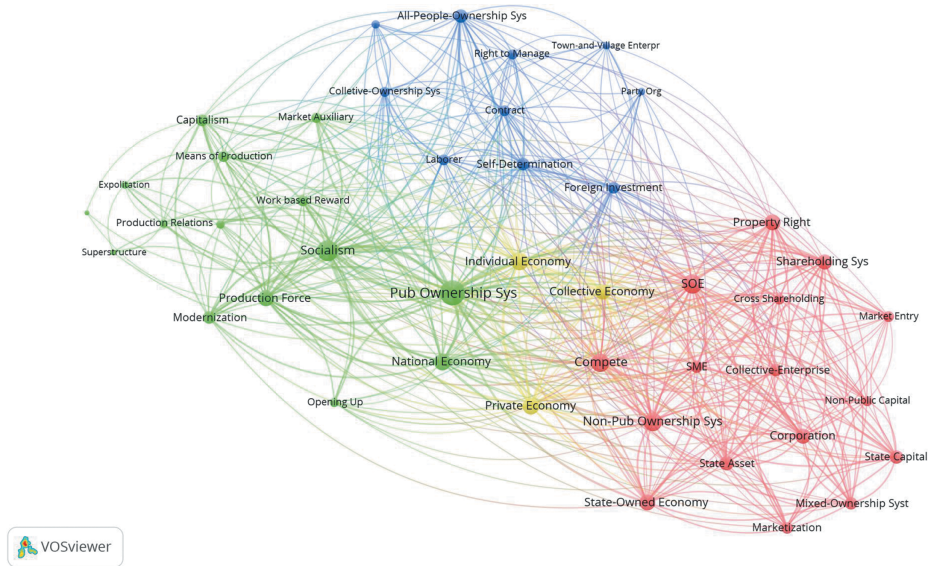


Figure 4B: Cluster Map of Public Ownership System.

The adjacent blue cluster reflects the vocabulary that accommodates new forms of organizations and management innovations. “All-people-ownership system” was the original equivalent of “public ownership system,” but then more emphasis was given to “collective-ownership system,” reflecting the vibrant economic innovations in the rural sector, such as the blooming “town-and-village enterprises.” At the enterprise level, “right to manage,” “contract,” and “self-determination” all refer to the concerted effort to give more autonomy and decision-making power to managers of factories and stores in the state-run economy.

The small yellow cluster provides some important clues to how the CCP stretched the extension of the concept. Starting from the early years of the reform, the party already recognized the existence of “individual economy” (defined as enterprises that employ no more than 5 people, thus not constituting exploitation) and “private economy” (defined as an entity that employs more than 6 individuals). The concept of

“collective economy” with vaguely defined property right (many successful entrepreneurs started off as managers of factories owned by a collective entity such as a town or a government agency) had been a controversial topic throughout the first thirty years of the reform.

The red cluster represents the more recent development in property rights reform. Here “private economy” has morphed into “non-public ownership system,” which stands side by side with the “public ownership system,” both strongly associated with “SOEs,” the “shareholding system,” and “cross shareholding” between SOEs and collective or private companies. At the furthest points, we observe “marketization,” “mixed-ownership system,” and “state capital,” indicating the more recent vocabulary that the CCP employed in describing the public ownership system. This cluster map is consistent with our qualitative analysis and visualizes the remarkable stretching of the meaning of a core term over the span of 40 years.

The symbolic stretching of the “Public Ownership System” concept is most clearly reflected in the changing material practice and structure of SOEs. At the beginning of the economic reform, SOEs were under the direct administrative supervision of the various state departments. Early reform focused on decreasing the direct control and management of SOEs by government administrators and increasing the accountability and autonomy of general managers. Laws and rules were established to delineate the legal status, property rights, and behaviors of SOEs; performance-based incentive systems, boards of directors, and professional managers were adopted. The reform also encouraged SOEs to issue public shares and get listed on stock markets. By the early 2000s, the vast majority of the two thousand listed companies were SOEs, and the state controlled the majority of the shares of these SOEs.

Interestingly, the stretching of the concept of the “Public Ownership System” has not led to a linear market liberalization of SOEs. During the late 1990s, the poor performance of SOEs (especially compared to the vitality of the private sector) led the government to let go of numerous small and medium SOEs through bankruptcy, management buyouts, and restructuring. However, many China observers agree that while the first two decades of the reform saw the retreat of the state in the economic realm, the later period of the reform has witnessed the strengthening of the SOEs reflected in the proliferation of state assets in central SOEs (i.e., about 100 SOEs supervised by the State-owned Assets Supervision and Administration Commission of the State Council). The ambiguity in the stretched concept accommodates both the “retreat” and “advancement” of state ownership in the overall economy.

Discussion

Our objective in this study is to understand how interested actors use rhetorical history to construct change. We explore this question in the context of China's market-oriented reform: China was able to legitimate radical change while maintaining conti-

nunity in some of its core institutions, such as the SOEs, the administrative control over strategic sectors, and the political structure. Our analysis reveals that the CCP used a deliberate strategy of rhetorical history, based on an application of the techniques of casuistry, to present economic change as a natural progression in the CCP's vision of the past, present, and future and an incremental extension of the core mission and values of Marxism, and to present the stable and continuous institution of the CCP as a disruptive change agent redefining eras and leading transformations.

Specifically, our rhetorical analysis generated four key techniques of rhetorical casuistry: dislodging, merging, substituting, and stretching. First, to illustrate casuistic dislodging, we analyzed a distinct shift in the interpretation of Mao Zedong's legacy. We observed an effort to *dislodge* the concept of Mao Zedong Thought from its literal, denotative, and taken-for-granted interpretation to a more figurative understanding of Maoist thought as an expression of the ideology of the CCP. Second, for casuistic merging, we focused on an effort to *merge* two previously similar concepts—socialism and China—in the idiom “Socialism with Chinese Characteristics,” and we explained how this merging produced a new concept with novel connotations that in effect justified the dramatic assimilation of capitalist practices and institutions.

Third, we showed how substitution works by identifying a series of clunky and strange phrases that the CCP formulated to *substitute for* previous formulations, which thus served as “painted horses.” We observed that these phrases moved China's self-identification from “Planned Economy” to “Market Economy,” concepts that were regarded as extreme opposites at the beginning of the reform. The subtle process of substitution was premised on the metaphor of the capitalist economy as a bird in a cage, and each stage of substituted slogans carefully reinforced the assumption that the structure of the CCP formed the cage and that without the party, the excesses of capitalism would run rampant. Finally, for casuistic stretching, we demonstrated how the intension and extension of a narrowly defined concept—“the public ownership system”—had been *stretched* from a term that was once restricted to mean collective ownership to a broader term that includes significant elements of private ownership. More importantly, while casuistic stretching expanded the notion of public ownership to incorporate elements of private ownership, it also provided the means for the party to reconstruct itself by populating it with entrepreneurs, capitalists, and a range of related individuals who only a few short years earlier would have been decried as “capitalist roaders.” Collectively, the four techniques of casuistry served a dual purpose: to legitimate economic reform in the country while simultaneously reasserting the authority and renewal of the party. So successful was this endeavor that China scholars have realized that “the CCP is an entirely different breed of political party from those we can observe in the West: it is a transformed emperor—an organizational emperor” (Zheng, 2010: 16).

These casuistic techniques consist of three distinct but overlapping components that make them potent vehicles of rhetorical history. First, the four casuistic techniques that we identified all involve a process of signification, which is the unification

of a linguistic formulation as the form or signifier of language and the concept that it symbolizes (Barthes, 2012). In Chinese political rhetoric, the long-standing reliance on formalized language in the form of easily memorized slogans means that “Chinese political discourse is restricted not so much with respect to content as with respect to form” (Schoenhals, 1992: 20). As a result, the slogans act like “floating signifiers” (Levi-Strauss, 1987[1950]: 63–64), or vessels so empty of actual meaning that they can be repurposed to almost any use.

Employing the techniques of casuistry, rhetors can take these signifiers and their associated denotative, taken-for-granted references and manipulate them to generate new concepts and meanings (Li, 2017). That these signifiers are not entirely new gives a perception of continuity and stability, yet these “old bottles” are now serving “new wine,”—e.g., as rhetoric reversing moral judgments about a period of recent history, rhetoric extolling the virtue of radical change, or rhetoric connecting the past, present, and future as a coherent story.

Scholars have shown that strategic ambiguity can be used to exploit the tension between principles and applications (Sillince, Jarzabkowski, & Shaw, 2012). An important insight is that some concepts seem to be “chameleon-like,” producing strategic ambiguity and lending themselves to wide diffusion (Meyer & Höllerer, 2016). The casuistic process of signification is unique in that the “old bottle” and the “new wine” constitute an irony that invites the audience’s active interpretation. Irony requires the audience to deliberately reject the literal meaning of a term and reconstruct the rhetor’s intended meaning (Booth, 1974). Casuistry uses irony to mediate between contradictions, such as old versus new, stability versus change, central planning versus free market, and socialism versus capitalism. Because casuistic language has two contradictory elements—the persistent presence of the old bottle and the infusion of the new wine—it can accommodate and sustain these contradictions.

The use of comforting symbols or skeuomorphs to smooth processes of disruptive change is a well-known technique of industrial design (Hargadon & Douglas, 2001). In the present case, we observe a skilled use of slogans to provide nostalgic continuity in language and ideology while economic institutions change drastically. In the hands of skilled propaganda experts, the vast array of slogans available in Chinese political rhetoric provided a powerful arsenal of skeuomorphs that could be used to placate the population and mask profound change as an incremental adjustment to Marxist ideology.

Second, we find that the casuistic formulations of phrases and slogans are inevitably embedded in arguments and narratives related to periodization. Periodization is a technique of rhetorical history by which actors can elevate the significance of some events and divert attention from others by somewhat artificially dividing the flow of historical experience into distinct eras (Suddaby et al., 2013). The CCP clearly understands that the imposition of periods is not an essentialist determination that arises from an objective interpretation of history, but rather an act of subjective imposition

by the historian designed to achieve a specific, strategic rhetorical effect (Suddaby & Foster, 2017).

The use of periodization as a technique of rhetorical history provides rhetors with the context for casuistic manipulation of the signification process. The CCP has always been sensitive to the powerful legitimation aspects of proclaiming a particular historical period as an “era.” As we demonstrate, the inherent contradiction of introducing the institutions of capitalism into a communist country was efficiently masked by the strategy of relabeling the current stage as “a primary stage” in the teleology of historical progress to an ideal socialist state. By placing historical markers around the 3rd Plenary of the 11th Party Congress in 1981 and glorifying it in numerous official texts as a mighty and profound transformation, the CCP effectively legitimated its role as the disruptive change agent. By proclaiming that there were only two “historic leaps” in the sixty-year history of the CCP, the CCP explained away the errors of the Cultural Revolution and Mao’s role in that period.

Periodization involves more than breaking down a continuous flow of historical experience into discrete stages or periods; it connotes moral and emotional attitudes toward the distinct periods that ought to be shared by the collectivity (Clemens, 1999). The periodization for casuistry is characterized by differential treatments of carefully segmented history, with some periods invoking collective endorsements and other periods collective condemnation. In attempting to justify the economic reform, the CCP devised perhaps the most elaborate theorizations in its official document *Resolution of Some Historical Issues about the CCP after the Founding of the PRC*, which serves to reorient the public’s attitudes toward controversial and problematic events in the past. Tumultuous past experience, including multiple ideological campaigns, was emotionally and morally debilitating for the population. The *Resolution’s* clear and precise language about which period should be regarded as good and which period disastrous helped put a halt to the potentially endless grievances, disputes, and confusion that would ensue. The emotional and moral clarity then helped prepare people for action.

Third, and perhaps most critically, the rhetor of history had to carefully nest both the strategies of casuistry and the rhetorical history within an overarching narrative of stability and continuity. As Lipset (Lipset, 1981: 84) observed, political legitimacy is dependent upon “the capacity of the system to engender and maintain the belief that the existing political institutions are the most appropriate ones for society.” As demonstrated in our VOS cluster maps, the CCP’s own legitimacy was carefully reinserted into the historical narrative in each of the four types of casuistry. The purpose of dislodging Mao, the individual, from his ideology was in large part to allow other senior members of the CCP to be inserted into the historical narrative of the founding of China as a socialist state, not the least of whom was Deng Xiaoping. By merging capitalism and socialism in the ideograph “Socialism with Chinese Characteristics,” the CCP could attach the Party’s policies to the obvious economic success of China under capitalism, a form of “performance legitimacy” that protected the CCP from criticism (Zhu, 2011).

Conclusion

This study makes two contributions to our knowledge about institutional change. First, it extends our understanding of the important role of rhetoric in legitimating profound change. Substantial prior research has established that rhetoric is a critical element for justifying change (Brown et al., 2012; Golant et al., 2015; Green Jr., 2004; Green Jr. & Li, 2011; Green Jr. et al., 2009; Harmon, Green Jr., & Goodnight, 2015; Heracleous & Barrett, 2001; Sillince & Barker, 2012; Sillince, Harindranath, & Harvey, 2001). However, little research has focused on identifying the specific mechanisms by which denotational and connotational meanings of words can be strategically shaped to balance the dual demands for change and stability. In this study, we introduce casuistry as one such mechanism and elaborate four distinct ways in which it has been applied. More critically, we demonstrate that casuistry is a rhetorical technique that is uniquely equipped to *construct change as both a radical breach from the past and a natural extension of unwavering principles that are firmly rooted in an authoritative interpretation of a coherent history*.

This contribution can and should be extended along two fronts. In this study, we have elaborated the use of only one rhetorical technique in the context of profound social change. Rhetoric also offers many other well-established techniques. We need a more systematic and detailed empirical analysis of how these other techniques can be used in different processes of institutional change, with a long-term view of establishing a taxonomy of rhetorical strategies for legitimating institutional change. Similarly, we also need to understand how generalizable these techniques of casuistry are for different empirical settings. Our setting presents unique challenges to actors because of its institutional complexity in economies dominated by socialist principles (Martin de Holan & Phillips, 2002). While the need to construct change as both radical and stable may be obvious in the context of a political organization promoting institutional change, we must also understand the motivation and application of similar strategies of legitimating change in corporate settings.

A second contribution of our study is that it problematizes essentialist conceptions of institutional and organizational change through the perspective of rhetorical history. The casuistic periodization based on rhetorical history shows that change is not a binary, discrete, and episodic event, but rather a rhetorical construction intended to manage contradictions. Moreover, the signification process of casuistry makes it possible for rhetors to embed conflicting messages in familiar expressions. Many China scholars have documented China's remarkable transformation and regard China as a de facto capitalist system. However, many others decry China as still being an imperial empire, and the CCP certainly offers an entirely different body of discourse regarding its change, some of which is illustrated in our four casuistic examples. These contradictory interpretations are not surprising to historians, who understand the extreme difficulty of accurately characterizing a period of change in the past as discretely constituting either revolutionary or evolutionary change (Mahoney

& Reuschmeyer, 2003). The characterization of a series of events as constituting change or stability is often imposed on history either by victors, by others with an interest in revising history (Hobsbawm & Ranger, 1983), or by the historians themselves with a view to promoting their own unique interpretation of the past (Veyne, 1971).

If we take seriously the notion that institutions are inhabited by actors who negotiate the meanings of the very institutions they inhabit (Hallett & Ventresca, 2006b), then we need to explore how rhetoric constitutes change at the very moment when the change happens, as well as how rhetoric is used to retrospectively reinterpret the flow of historical experience for strategic purposes (Suddaby et al., 2010; Suddaby & Foster, 2017). To say that change is rhetorically constructed is more than alluding to instances where actors declare an event “historic” or claim that “we are making history”; it problematizes the notion that essentialist conceptions of radical or convergent change actually exist. We can problematize this notion by returning to the subjective consciousness of the actors and investigating how they actively negotiate the meanings of change as they experience it and as they seek to use the past for the present and future.

To do this, we need to adopt a more precise historical consciousness in management research through which we can systematically explore the various ways that rhetorical history is used to facilitate organizational and institutional change. As theorists have observed, researchers have overlooked the importance of interpretive history in managing processes of organizational change (Suddaby & Foster, 2017; Vaara & Lamberg, 2016), and this study illustrates the empirical truth of that observation. History is a malleable subject.

Chapter 4

Rhetoric and Authority in a Polarized Transition: The Case of China's Stock Market

How do actors in positions of authority attempt to justify their right to rule while introducing controversial institutional practices that potentially delegitimize their authority? The establishment of the stock market in China raises this very question. It epitomizes the legitimacy challenges that the Chinese Communist Party (CCP) has to deal with because adoption of the quintessentially capitalist stock market contradicts the existential bases on which the CCP is founded. However, the CCP has implemented many capitalist practices and policies, including boldly adopting the stock market in 1990. This paper deploys the method of rhetorical criticism to analyze the objectives and intended effects of the CCP's rhetoric. We show that actors use different rhetorical genres—fusions of distinct rhetorical content and rhetorical style—in response to the polarizing situations they confront. Actors use these rhetorical genres to achieve simultaneously two seemingly contradictory objectives: justify institutional practices that challenge the very legitimacy of the actors and validate the same actors' right to rule. Remarkably, the CCP has firmly established itself as a key player in the establishment of a supposedly capitalist stock market.

This paper contributes to management studies in two substantive ways. First, our study provides a conception of authority as a dynamic and ongoing interplay between the actors in authority, the exigencies of the situation, and the expectations of the audience. We demonstrate how actors' authority involves a continuous effort to take charge of a rhetorical situation and provide rhetorical responses that not only create new speaker–audience relationships but also manage the contradictions in the situation. Our study highlights how the same actor can use rhetoric to create different kinds of discursive spaces in which multiple subject positions are constructed. This conceptualization of authority helps differentiate between the concepts of authority and legitimacy: legitimacy resides with the interpretive acceptance of the audience, whereas authority is the creative work of the speaker. Distinguishing between legitimacy and authority enables researchers to identify and discuss the illegitimacy that is often associated with actors in authority positions.

Second, our study responds to the call to pay more attention to actors' intentionality in the study of institutional work (Lawrence, Suddaby, & Leca, 2009, 2011; Phillips & Lawrence, 2012). Research on intentionality has mainly focused on its temporal dimensions and tried to explain when and how actors become more or less intentional (Emirbayer & Mische, 1998; Battilana & D'Aunno, 2009). Our findings suggest that intentionality is multifaceted in that an actor's utterance can be motivated by several different intentions. Specifically, we identify the speaker's intention to claim and assert authority as an implicit meaning in addition to the explicit intention of

justifying controversial practices. We arrived at this insight by combining rhetorical situation theory with genre analysis to reveal the manifest as well as latent objectives of a rhetorical utterance beyond its ostensible content. Despite the difficulty and lack of consensus on how to infer intentionality, it is important to our understanding of action and agency to describe and makes sense of the complexity of actors' intentionality (Lawrence et al., 2009, 2011). Our findings can shed light onto the complexity of intentionality partly because the actors that we study find themselves in a very polarized institutional environment and are pressured for change and order at the same time. The actors have done something that few have examined, that is, they have maintained their authority positions while deliberately departing from established practices and radically introducing new and controversial ones. The complexity of the institutional environment provides an ideal case for understanding actors' intentionality.

In the remainder of the paper, we first review the relevant literature on legitimacy and authority. Then we describe our methodology, including data collection and the method of rhetorical criticism. Our findings focus on 1) showing how the rhetorical genres deployed by the CCP construct different speaker-audience relationships; 2) discussing how rhetorical genres function as discursive spaces in polarizing or institutionally complex situations; 3) tracing the changes in rhetoric in relation to the changing institutional context that entails different rhetorical situations; and 4) identifying resistance to the rhetoric. We conclude with a discussion of our theoretical contribution.

Authority, Discursive Space, and Rhetoric

Authority is a core concept in institutional theory. Weber conceptualizes authority as "legitimate domination"—a special kind of power vested in beliefs of the rightfulness of those who give commands (Weber, 1978). Authorities desire voluntary compliance because domination based on the sole deployment of coercion is not sustainable (Ilchman & Uphoff, 1969; Leites & Wolf, 1970; Wriggins, 1969). As Weber observes, no institutional authority bases its regime on force alone; all engage in cultivating a belief in its legitimacy (Weber, 1968). Following Weber, Bendix (1974) argues that institutional authority rarely commands without a higher justification and that followers are seldom docile enough not to provoke such justification.

Although it is generally acknowledged that actors in positions of authority are dependent on those who confer them legitimacy, classical institutional theory fails to separate authority from legitimacy, and instead attributes legitimacy to actors in positions of authority, or equates authority with the regulative pillar of institutions (Scott, 1995). Conflating authority and legitimacy is problematic because actors in authority positions can well be illegitimate in the eyes of many constituencies. Research in political science suggests that the problem of conflating authority and legitimacy probably began with Weber's or the interpretation of Weber's conception of legitimate "Herrschaft" (Bee-

tham, 1991). Scholars influenced by Weber tend to reduce the complex concept of authority to the forms of legitimacy (i.e., rational-legal, traditional, and charismatic) and ignore the substantive grounds of legitimacy (e.g., beliefs or principles about the rightful source of legitimacy such as dynastic succession, divine authorization, popular sovereignty, or Maxism-Leninism). As a result, the Weberian typology of authority is an inadequate tool for analyzing some of the political regimes of the twentieth century, especially non-legitimate regimes (Beetham, 1991). That authority can be illegitimate is also evident in the scholarly discourse of the French Revolution, arguably the root of the modern conception of popular sovereignty. In particular, generations of thinkers analyzing Napoleon's regime often debated whether this regime was the embodiment of popular sovereignty or the illegitimate usurpation of the legitimate authority of the monarchy (Richter, 1982). We agree with these scholars that the Weberian influence in subsequent conceptualization of authority is problematic and argue that it reifies authority and neglects the subjective nature of authority—the cognitive and symbolic processes that make authority almost always a work-in-progress instead of a fixed reality.

A distinction offered by the political scientist Uphoff represents the first step in building a more robust conception of authority in institutional theory. Uphoff distinguished between authority and legitimacy by reinterpreting Weber's original German writings: authority differs from legitimacy in that authority is a "claim for compliance," while legitimacy indicates "acceptance of that claim" (Uphoff, 1989: 303). For actors in positions of authority, legitimacy is their desired goal whereas authority is the work that they do to obtain that goal. According to this view, authority may not be regarded as legitimate by everyone at all times; the legitimacy of authority can be challenged, disputed, and subject to removal. Perhaps because of this, actors in positions of authority may spend a great deal of time and effort claiming that their authority is legitimate and worthy of voluntary compliance. This view allows us to explore authority as the purposeful work of actors in persuading their audiences of their legitimacy, and to conceptualize authority construction as an ongoing process of interaction between the actor who makes claims for compliance and the audience who chooses to accept or deny such claims.

Discursive Space and Subject Positions

The discursive institutional perspective offers several insights into how actors construct their authority in their interactions with an audience. First, authority construction takes place within a sphere of activities. For example, regulatory actors gain or lose authority in relation to the industry they regulate (Hoffman, 1999: 362). More broadly, the sphere can be conceptualized in terms of discursive spaces, defined as physical (e.g., different venues of a conference) or virtual spaces (e.g., journals or newspapers) in which actors contest meanings, formulate rules, and change the structural relationship within a field (Hardy & Maguire, 2010). For example, financial pro-

professionals saw their status rise with the creation of academic journals as a discursive space and the dominance of the space by a body of academically controlled knowledge (Lounsbury, 2002). Actors with alternative framings of globalization compete for legitimacy in discursive spaces such as the financial, news, and editorial sections of prominent newspapers (Fiss & Hirsch, 2005).

Second, discursive institutionalism employs the concept of subject positions to understand the roles of actors in discursive spaces. Subject positions are socially constructed, negotiated, and legitimated identities and social relations (Hardy & Phillips, 1999; Maguire & Hardy, 2009; Maguire, Hardy, & Lawrence, 2004; Oakes, Townley, & Cooper, 1998). Actors' subject positions give them the right to make statements, and these statements are in turn dependent on the discourse that constructs certain subject positions (Phillips & Hardy, 1997). Moreover, actors' subject positions in a field change through discourse. Similar to institutional fields, which often comprise multiple and sometimes contradictory logics and meanings (Bourdieu, 1990; Friedland & Alford, 1991; Lounsbury, 2008; Reay & Hinings, 2009; Sewell, 1992), discursive spaces are replete with multiple voices, competing interests, and contentious definitions (Hardy & Maguire, 2010). By shaping discursive spaces and subject positions (Hardy & Maguire, 2010), actors can exploit the multiplicity and contradictions of logics and meanings to change the existing structure of a field (Creed, DeJordy, & Lok, 2010; Rao, Monin, & Durand, 2003; Seo & Creed, 2002).

While the concepts of discursive space and subject positions point to the importance of discourse in shaping actors' authority, they tend to emphasize how discourse defines and thus imposes limits on subject positions at the expense of explaining how actors can use language purposefully to achieve and change subject positions and discursive space. Studies that do focus on how actors use language purposefully often examine the purposeful infusing of legitimacy into institutional practices or forms (Brown, Ainsworth, & Grant, 2012; Green Jr., Li, & Nohria, 2009; Munir & Phillips, 2005; Sillince & Barker, 2012; Vaara, Tienari, & Laurila, 2006). For example, Munir and Phillips (2005) demonstrate how Kodak in its early years artfully shaped the change in meaning of a technological artifact through discursive strategies, such as producing texts that constitutes new subject positions, concepts, and objects that become institutionalized in everyday experience. Vaara and colleagues (2006) identify the discursive strategies of industrial restructuring by journalists in the media. These studies highlight the effort and intentionality of actors in creating, maintaining, and disrupting institutions, but they have not made explicit an underlying intention that is potentially important to these actors, that is, the legitimacy of these actors' authority.

Rhetoric and Authority

Rhetorical theory offers a vantage point at studying the underlying intentions of actors engaging in discursive activities for it "has a long history of analyzing how differ-

ent uses of words connect actors, interests and audiences” (Sillince & Suddaby, 2008; Suddaby, 2010). Organization research informed by rhetorical approaches emphasizes how actors establish their authority by making present sources of authority in conversations (Benoit-Barné & Cooren, 2009), producing competing statements of multiple identities to control stakeholder perceptions (Sillince & Brown, 2009), and selectively using narratives to normalize the abnormal and reinforce their particular versions of reality (Brown, 2000, 2004).

Central to a rhetorical perspective on authority is the rhetorical capabilities of the speaker. Authority is understood as the capacity to produce reasoned elaboration and persuasive arguments (Willard, 1989). Moreover, authority presumes a purposive act of agents who self-impose a responsibility to provide proofs in the ways they are “authorized to speak out” (Liu, 1997: 422). At its core, authority is the actor’s self-conscious act of seeking opportunities to persuade and articulate using rhetorical invention and creativity (Perelman & Olbrechts-Tyteca, 1969). Hence, authority is distinct from positional power and can be understood as a product of “the power accruing to the speaker from their use of language” (Sillince, 2000: 1134).

While these studies have provided important insights into understanding authority as a rhetorical product, they have not gone very far in exploring the ongoing interaction between speaker and audience, texts and contexts. Consequently, we still tend to understand authority as a property and fall short of explaining the continuous performance of actors in shaping speaker-audience relationships and the broader institutional contexts.

Rhetorical Situation Theory and Genres Analysis

We introduce rhetorical situation theory and genre analysis to provide a more dynamic and nuanced conception of authority that involves the ongoing interaction between speaker and audience, text and context. Rhetorical situation theory posits that rhetoric is situational, which means that the nature of the context in which speakers create their rhetorical utterance is a necessary condition for the rhetorical utterance, and that this context shapes and gives significance to the characters of the rhetoric (Bitzer, 1968). Bitzer (1968: 6) defines rhetorical situation as “a complex of persons, events, objects, and relations presenting an actual or potential exigence which can be completely or partially removed if discourse, introduced into the situation, can so constrain human decision or action as to bring about the significant modification of the exigence.” According to rhetorical situation theory, the situation is the source and ground for rhetorical activity and rhetorical criticism. A rhetorical situation calls for a rhetorical response that fits with the situation. Since many rhetorical situations are recurrent and general, such as a presidential inauguration or a funeral, it is useful to use rhetorical genre analysis to understand the kind of rhetorical response that fits with the situation.

A rhetorical genre is a constellation of recognizable substantive, stylistic, and situational characteristics fused together by an internal dynamic into an indivisible whole (Campbell & Jamieson, 1978). There are two reasons why genre analysis is suited for exploring the construction of authority. First, genre analysis assumes that “situations fall into general types, depending on the objective of the rhetoric,” and seeks to “discern the similarities in rhetorical situations and the rhetoric constructed in response to them” (Foss, 2009: 137). As such, genre analysis is well suited to study the interaction between rhetoric and the institutional context (Johnson, 2004) and between rhetoric and authority (Simons & Aghazarian, 1986). Second, genre analysis encompasses not only the argument, but also “the role of the listener, and the relationship between the speaker and the audience” (Campbell & Jamieson, 1978: 17). Rhetorical frameworks that include the relationships between the speaker and audience provide the most appropriate tools for exploring how such relationships—defining features of authority—are the product of rhetorical processes.

Maintaining Authority in Polarized Institutional Context

Authority construction is most needed when the actors in positions of authority face constant legitimacy challenges. The contested nature of legitimacy is especially visible when contradictory meaning systems in the institutional context put the very legitimacy of these actors in question (Creed et al., 2010). In such cases, opposing views in the institutional context make the criteria for judging legitimacy disputable (Suddaby & Greenwood, 2005), thus increasing the difficulty of establishing or retaining legitimate authority. We define a polarizing institutional context as one that contains opposing, yet equally strong and pervasive, institutional logics, and one in which these logics frequently confront one another in discursive struggles. Institutional scholars have paid increasing attention to institutional fields with multiple and potentially conflicting logics (Dunn & Jones, 2010; Friedland & Alford, 1991; Purdy & Gray, 2009; Reay & Hinings, 2009). While many studies have shown how actors exploit contradictions in logics in legitimating new organizational and institutional forms, scholars know little about how actors in positions of authority maintain, defend, or even transform the ground of their authority in a field influenced by polarizing institutional logics. Institutional maintenance in a polarized institutional context can be tricky. Instead of relying on institutional maintenance mechanisms such as enforcing and reproducing existing rules, norms and belief systems (Lawrence & Suddaby, 2006; Dacin, Munir, & Tracey, 2010) or restoring and repairing these rules, norms and beliefs when they are disrupted (Miccotelli & Washington, 2013; Lok & De Rond, 2013; Wright, Zammuto, & Liesch, in-press), actors may have to play two contradictory roles at the same time: the change agent and the enforcer of order. This is not unusual for organizations in an institutional context characterized by radical transition (Martin de Holan & Phillips, 2002). Understanding how actors can achieve both authority and change has broad implications for manage-

ment research. For instance, leaders in corporations, governments, and other types of entities may face the problem of maintaining authority in contexts that are increasingly characterized by multiple and contradictory logics and meanings, and their failure to address these contradictions may lead to executive turnover, instability, or a collapse of the social order.

Methodology

Economic policy during the reform era in China was unstable and inconsistent, and political authorities employed policy discourse as a means of providing citizens with rational accounts that would make sense of the situation and justify specific courses of action. As Yang (2000: 64–68) observed, “In China, the actual ruling institutions are not legal regulations, nor cultural conventions, but policies made by the Chinese Communist Party.” Party policies often take the forms of CCP reports, newspaper editorials, and spontaneous public and private talks by government officials (Yang, 2000). These policy texts comprise our data.

We collected our data in two phases. In the first phase, we read extensive secondary accounts of China’s adoption of the stock market in historical and scholarly works, in both English and Chinese (Green, 2003; Li, 2001; Walter & Howei, 2006). To supplement our reading, we conducted twelve in-depth interviews between 2005 and 2007 with knowledgeable individuals, including regulators, fund managers, investment bankers, and academics who study China’s stock markets. We used these secondary accounts and interviews to triangulate and validate our interpretation of the meaning of the discourse surrounding the evolution of events.

In the second phase, we identified a key primary source from which we collected systematic data for analysis: we selected articles about China’s stock market from a national daily newspaper, the *People’s Daily*. The *People’s Daily* is the mouthpiece of the CCP Central Committee and is its most important channel of propaganda (Wu, 1994). It is the most widely circulated official daily newspaper in China and publishes all CCP Congress reports and important speeches by top party officials, as well as daily news. Although the different kinds of articles it publishes—such as editorials, opinions, and reports—have different degrees of authoritativeness, the CCP Central Committee’s Propaganda Department carefully reviews and approves all articles to ensure that they represent the views of the CCP. Therefore, articles in the *People’s Daily* are robust representations of the collective beliefs and sentiments of the state apparatus. Management researchers use the *People’s Daily* as a credible source for gauging the political climate of China (Li, Yang, & Yue, 2007). During the reform era, although the voice of the conservative camp was reflected in a few pieces, and the newspaper was temporarily dominated by the conservative camp after the Tiananmen incident in 1989, the general orientation of the *People’s Daily* is pro-reform. The newspaper is therefore a robust and

consistent representation of the voice of the CCP's reform camp on the institutional field and practices surrounding the stock market.

To ensure the representative nature of our sampled texts, we checked our search strings with our interviewees¹ and revised the strings as necessary. The searches resulted in 792 articles, of which we deleted 129 because they were tangential to the subject matter (i.e., they mentioned China's stock market only incidentally). The final database contained 663 articles (1563 pages of Chinese text), spanning the period 1986–2004. The articles range from around 150 words to about 13,000 words in length, with an average of 2,300 words. 1986 is the year when the first relevant article appeared and the over-the-counter (OTC) market was established the same year. We chose 2004 to be the end of our observation period, for it is a few years after 1999, the year the Securities Law went into effect. The implementation of the Securities Law is an important indication that the stock market is firmly embedded in China's economy. We did not include more recent data because the relationship between the stock market and the CCP is no longer marked by a question of legitimacy: the stock market has not posed challenges to the CCP's authority no matter how it performed, as demonstrated in the market crash in 2007 and again in 2015. New controversies arose and further market liberalization measures were intensely debated, but they have not changed the CCP's role in the market in a fundamental way. Figure 5 shows the total number of articles we coded as well as the volume of initial public offerings (IPOs) from 1986 to 2004.

Analysis

Our analysis is informed by rhetorical approaches (Foss, 2009; Grant, Hardy, Oswick, & Putnam, 2004; Phillips, Lawrence, & Hardy, 2004). Similarly to rhetorical analyses of public reports (Brown, 2000, 2004; Brown et al., 2012), we treat the articles from the *People's Daily* as rhetorical products that reflect authorial intent and as discursive constructions that constitute power relations. In the first stage of our data analysis, we adopted a narrative strategy (Langley, 1999), which involves developing a detailed story of the evolution of the stock market based on the extensive body of secondary accounts written by scholars, journalists, regulators, and observers, supplemented and triangulated by our interviews. In this process, we paid particular attention to the role of the states and converging views on key events in the history of the stock market.

¹ We searched the electronic database of the *People's Daily* using the keywords “China's stock market,” “China's capital market” or “China's securities market” to find relevant articles. We also searched for articles containing both the keywords “stocks” and “the shareholding system,” which gave us articles on Chinese stocks and stock-issuing companies. Enterprises that restructure to become shareholding companies are the foundation of the stock market, and articles on these companies and activities are part of the CCP discourse on the Chinese stock market.

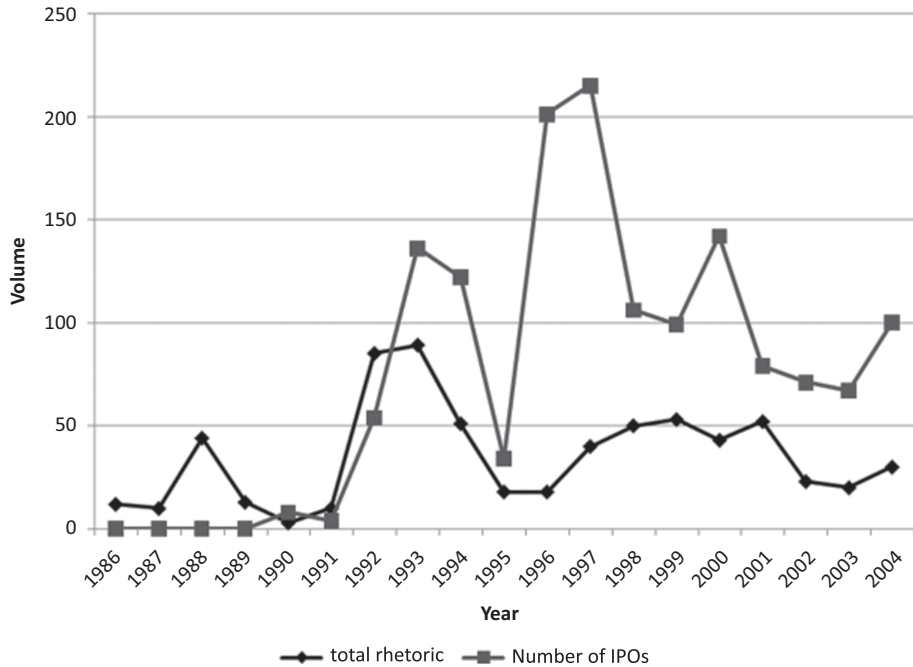


Figure 5: Volume of IPOs and China stock market discourse in the *People's Daily*.

In the second stage of our data analysis, the first author and a research assistant identified rhetorical artifacts in these articles through open coding of the data. The coding draws from the method of rhetorical criticism, which is “a qualitative research method . . . designed for the systematic investigation and explanation of symbolic acts and artifacts for the purpose of understanding rhetorical processes” (Foss, 2009: 6). During this stage, we coded significant rhetorical elements of the articles, paying particular attention to recurring patterns such as repeated use of images, metaphors, vocabularies, lines of arguments, structures, tones, and styles. In a highly iterative process, cycling back and forth between data and theory, we employed and subsequently dropped several rhetorical frameworks that have been used by organization scholars, including Aristotle’s three rhetorical proofs (Brown et al., 2012; Erkama & Vaara, 2010; Green Jr., 2004), Burke’s four master tropes (Cornelissen, 2008; Sillince & Barker, 2012), Burke’s dramatic pentad (1969), and categories that scholars found inductively (Goodrick & Reay, 2010; Suddaby & Greenwood, 2005). We also created and subsequently dropped some categories that we developed from the data because although they captured some aspects of the rhetorical processes at work, they fell short in addressing our central questions, which concern the relationship between the speaker and the audience and between the rhetoric and the situation.

In the third stage of our analysis, we began to look for ways to categorize the implicit authorial intent and our codes began to coalesce into higher-order categories (Miles & Huberman, 1994; Strauss & Corbin, 1994). After numerous discussions and consultations with rhetorical scholars, we adopted Aristotle's framework of rhetorical genres as the overarching conceptual scheme for our analysis because the categories we developed from inductive coding are nicely congruent with Aristotle's three rhetorical genres. Categorizing articles into rhetorical genres allows us to analyze the message being conveyed that is beyond the content of the article.

Aristotle's rhetorical genres have been used widely in communication studies (Condit, 1985; Medhurst, 1989; Sullivan, 1993). Aristotle divides rhetoric into three genres—forensic, epideictic, and deliberative—based on the type of audience and the nature of the rhetorical situation (Aristotle, 1991; Herrick, 2005; Poulakos & Poulakos, 1999). Forensic rhetoric originated in ancient Greece as a genre used by litigants in the setting of a court of law in front of jurors. This genre uses the language of prosecution and defense, and its goal is to evaluate the justice or injustice of an action that is under question. Epideictic rhetoric arose in public ceremony settings such as funerals, festivals, and athletic events. Epideictic speakers use the language of praise and denunciation, aiming to demonstrate what is honorable or what is shameful in the given state of affairs. Deliberative rhetoric took place in political assemblies. This genre uses the language of urging and deterring to decide on the most practical course of action for the immediate future, that is, the most expedient means to achieve a given end under conditions of uncertainty. Table 2 summarizes the three rhetorical genres.

Table 2: Aristotle's Typology of Rhetorical Genres.

	Forensic rhetoric	Epideictic rhetoric	Deliberative rhetoric
Audience	Judge	Spectator	Judge
Time-orientation	Past	Present	Future
Setting	Court	Ceremony	Political assembly
Language	Prosecution and defense	Praise and denunciation	Urge and deterrence
Objective	Evaluate what is right and wrong	Demonstrate what is honorable and shameful	Weigh the advantage and harm from alternative courses of action
Image of the speaker	Defendant	Priest/teacher	Decision maker/manager
Method of reasoning	Deductive	Example-based, inductive, extensive information, amplification	Combination of theoretical reasoning and practical reasoning

Whereas the Aristotelian categorization of the genres was based on the physical space in which the rhetoric occurred—courts, festivals, or political assemblies—contemporary scholars regard any rhetoric to be classifiable as one of these genres (Herrick, 2005). In line with the definition of a rhetorical genre, which is an indivisible whole with an internal dynamic between substance, style, and situational factors (Jamieson & Campbell, 1982), we used the article as the unit of analysis. We categorized an article as forensic when the question of right or wrong was at the center of the argument. We categorized an article as epideictic when it extolled virtues or denigrated vices. We categorized an article as deliberate when its main arguments focused on weighing the advantages and costs of different courses of actions. When an article was a hybrid form of two or more genres, we categorized it based on the most pronounced genre. Out of the 663 articles we coded, 109 or 16% are forensic articles, 388 or 58% are epideictic articles, and 166 or 25% are deliberative articles. Within the forensic and epideictic genres, we further identified two subgenres that are distinguished by their unique fusion of substantive arguments and the style of argumentation. Figure 6 illustrates our process of data analysis and the data structure. Our inter-coder agreement using Cohen's Kappa was $k = .88$ (Cohen, 1960).

Research Setting: The CCP's Legitimacy Challenge and the Stock Market

To many Chinese and Western audiences, the CCP's actions are often decoupled from their espoused ideologies. The CCP has maintained its allegiance to communism yet it has adopted some of the most vibrant capitalist practices. The decoupling has its roots in the deep divide in policies within the CCP. In China's post Cultural Revolution era, top leaders in the CCP have deep and polarized public policy orientations (Fewsmith, 1999; Pye, 1981), commonly referred to by Chinese as "leftist" and "rightist" camps. The leftists, also known in Chinese as conservatives, often espouse a strict adherence to the central planning model, thus placing more importance on ideological purity than the practical needs of the populace (Baum, 1994; Fewsmith, 2008). The rightists, usually pro-economic reform, often focus on the impoverishing reality of the socialist China and are more pragmatic, prioritizing practical solutions over ideological consistency with conventional party conceptions (Baum, 1994; Fewsmith, 2008). As early as the 1950s, Deng Xiaoping allowed farmers to contract for land in order to fight starvation. For such acts, Mao and his associates labeled him as the "biggest capitalist roader within the CCP". When Deng finally rose to power after the death of Mao and the dethronement of Mao's official successor, he embarked on a direction very different from Mao. However, Deng also decided not to break away from communism or to declare Mao illegitimate. Deng orchestrated the reform by enlisting both the reformers whose agenda he endorsed and the conservatives who were his comrades in the revolutionary era (Lai, 2006). By carefully balancing the influence of conservatives and radical reformers, Deng moved the reform forward while holding onto the ideological

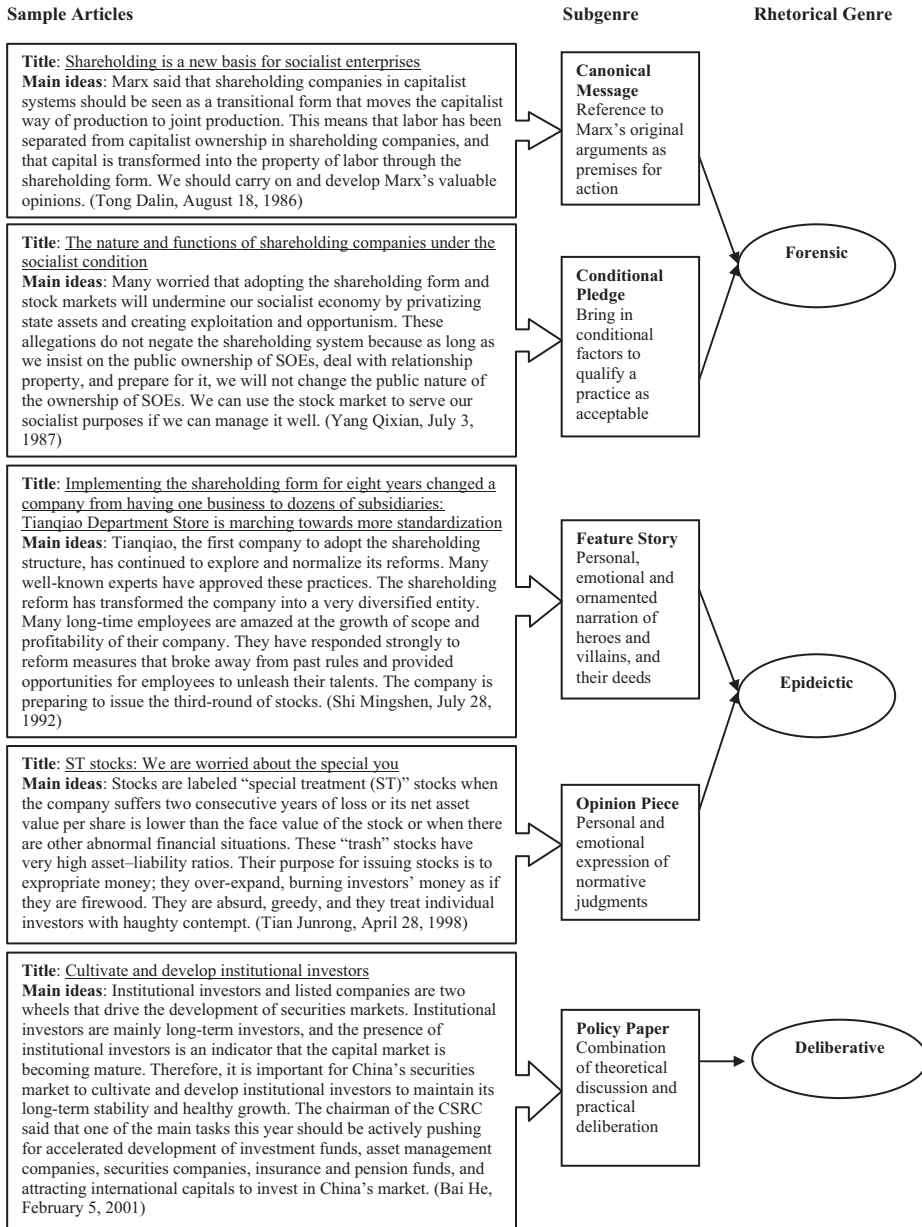


Figure 6: Data Structure.

legitimacy of the party (Lai, 2006). As the paramount leader of the economic reform, Deng could not and did not want to completely thrash the conservatives, not only because the conservatives had a lot of power but also because they are an important

balancing force when the reform camp's policies became too radical. Hu Yaobang and Zhao Ziyang, two General Secretaries of the CCP, although handpicked by Deng to lead the economic reform, were both forced to resign for making the mistake of "bourgeois liberalization" in the 1980s.

The reform camp consists of a diverse body of people, including intellectuals, party cadre, bureaucrats, and ordinary people, many of them suffered injustices during the pre-reform era, with some even put into correction camps as rightists. Similarly, the conservative camp is just as diverse, with influential wartime revolutionaries, as well as other adherents with strong convictions to communist ideologies and practices. Often, the conservative voice is so strong that it sets the boundaries of what qualifies as legitimate vocabularies in the public sphere. As an interesting example, Deng Xiaoping told an American visitor as early as 1980, that China needed to establish a "market economy," yet the CCP did not publicly adopt the label "market economy" in its domestic rhetoric until 1992.

Although the CCP's post Cultural Revolution orientation has been broadly in line with the vision of the reform camp of the CCP, the party faced legitimacy crises of epic proportions in the early years of the economic transition (Kluver, 1996). Straddling the line between upholding communist ideology and adopting capitalist practices, the reform camp of the CCP lacked the legitimacy in the eyes of many stakeholders: conservatives, radicals, as well as the general public. Conservatives accused reform projects of breaching the communist ideology, thus delegitimizing the reformers' right to lead (Wang, 2011). More radical reformers and the international community viewed the leadership's reform initiatives with deep suspicion and mistrust precisely because of their communist roots (Goldman & MacFarquhar, 1999). In addition, the CCP suffered the dual threat of questioning an ideology that might undermine their authority combined with the lack of trust by the populace in light of the economic damage done to the country under the CCP's governance.

Many scholars observe that although China's party-state faced enormous legitimacy challenges and lacked the electoral legitimacy of its Western counterparts (Zhao, 2009a), it derives legitimacy from other sources such as Maoist ideology and indigenous Confucianism (Kluver, 1996; Lin, 2011; Wang, 2011; Zhao, 2009). More recently, researchers have come to understand that the CCP has been transformed from a revolutionary party to an administrative entity (Zheng, 2010) and that the legitimacy of China's party-state now lies in its performance, primarily its ability to deliver sustained economic growth (Guo, 2003; Lardy, 2002; Lin, 2011). Note that this scholarly insight was obtained only after many failed predictions of a collapse of the CCP rule by western observers. To the surprise of many, the CCP has transformed its economy from a command economy to a market-oriented economy while maintaining its one-party rule.

Establishing the stock market represents the most radical and difficult reform led by the CCP. As a China scholar notes, "It is this paradox—a stockmarket, that most capitalist of institutions—being nurtured in a country run by a communist party, that

most fascinates observers (Green, 2003, p. xiv).” The history of stock markets in China tells how a stock market posed threat to the legitimacy of the CCP. Stock markets were not new to China. The first private securities company was established in Shanghai in 1882 when China was semi-colonized by western powers. From the 1920s to the 1940s, stock trading in Shanghai was active and popular. With 140 stock trading houses at the peak, the stock market in Shanghai was described by the then newspapers as a “paradise for adventurers.” In 1949, at the dawn of the creation of communist China, Mao Zedong personally ordered the Shanghai stock exchange to be shut down when the CCP’s Liberation Army took control of Shanghai. The socialist era witnessed waves of movements and campaigns with class struggle as the mantra. Class struggle, the struggle between the bourgeoisie and the proletariat, virtually eliminated all traces of capitalist practices. It is therefore ironic that forty years later, in 1990, Mao’s successor, the paramount reform leader Deng Xiaoping, personally approved the opening of an official stock exchange in Shanghai. To many, the re-opening of stock markets marked a fundamental departure from Maoist ideology because it revived the capitalist practices that the Maoist regime tried hard to dismantle.

Unlike many other countries whose adoption of the stock market is influenced by the world-wide diffusion of stock markets since the 1980s, the adoption of the stock market in China is more an indigenous initiative. For Soviet bloc countries, the stock market is a mechanism for mass privatization; for some third-world countries that are dependent on international development aid, the stock market is forced onto them as part of the aid package; for other countries that are embedded in the international trade system, the stock market is a result of emulation of their trade partners (Weber, Davis, & Lounsbury, 2009). None of these factors feature strongly in China’s adoption. Instead, economic reform carried out first in the rural areas, which provided the ground for the development of the shareholding form, and the issuing of shares and bonds facilitated the emergence of the black market for trading, which led to the opening of an official OTC market. Although the stock market seemed to be the next step in the economic reform, it was also much more controversial and elicited much stronger resistance. In fact, the Chinese leadership did not publicize the stock market when it first opened in 1990: there was little domestic media coverage. Interestingly, foreign observers seemed more curious about this phenomenon. Japanese media gave full coverage of the opening up of China’s stock market (Li, 2001). An article in the *Economist* pondered why a communist party was interested in having a stock market.

Due to lack of legitimacy, the stock market did not take off immediately after it first opened. State-owned-enterprises (SOEs) initially refrained from getting listed on the stock market. Only collective-owned-enterprises sought IPOs. Ideological attacks from conservatives and hesitation from potential investors led to a period of dormancy in IPOs and trading activities. The thought that the stock markets could easily lose momentum and that the CCP would shut it down, hindered mass participation. However, the stock market gained confidence and developed rapidly after Deng Xiaoping affirmed

the direction of the economic reform in his spring tour in 1992. Although the growth rate of IPO temporarily slowed down during 1994–1995 due to Zhu Rongji's retrenchment campaign and during 1997–2001 because the CCP's three-year plan to revamp SOEs placed pressure on the valuation of stocks, the stock market grew exponentially during this time period. From 1990 to 2004, listed companies grew from only 10 stocks in 1990 to over 1,300 in 2004, total capital raised from 1.81 billion RMB to over 80 billion, total market capitalization from 5.1 billion RMB to 3,700 billion, and investor accounts from 120,000 to 72 million.

In the 1990s, the government exercised many forms of administrative control over the stock market. For instance, the government imposed an annual quota which, from 1993 to 1996, restricted the total amount of capital companies can raise through IPO issuance, and from 1996 to 1999, the total number of companies to go public (Wong, 2006). The government also selected qualified issuers, determined the time of IPO, and even restricted P/E ratios to about 13–15 to all firms, regardless of their industries (Yao, 1998). Furthermore, the government restricted SOEs to trade only 25%–35% of their total shares and kept the rest of the shares non-tradable (Walter & Howei, 2006). Administrative interventions were so pronounced that people called the Chinese stock market a “policy market” (Green, 2003). Various administrative proclamations may well explain the extraordinary peaks and troughs in trajectories of the A-share indices (Ma, 2004). Many believe that government policy is the direct trigger to the bull market in 1996 and 1998 (Yao, 1998). In fact, many observers called the stock market the “Zhu market” indicating that it was closely managed by the then Premier Zhu Rongji, himself a long-time rightist and reformer.

The stock market did not conform to all government arrangements. Actual capital raised or companies going public often exceeded the quota drastically, reflecting a weak management at the central government and the fragmented nature of the market governance system between 1992 and 1997 (Green, 2004). Extreme volatility and speculative trading also characterized the early years of the stock market because the majority of investors are individual investors (Gao, 2002). Early investors in the stock market experienced something similar to roller coaster rides with huge price fluctuations and several highly publicized scandals of corruption in managing stock issuance and trading. The ratio of the highest to lowest values of the indices for Shanghai Stock Exchange Composite Index reached 4.88 in 1992 and 2.45 in 1996, and that ratio was 2.45 and 4.84 for Shenzhen Stock Exchange Component Index in the equivalent years. The average volatility of Dow Jones China is 51.10% from 1994 to 2001, comparing to Dow Jones Industrial Average's 15.80%, Nikkei's 20.80%, and the Dow Jones World Emerging Market's 27.92% in the same period (Gao, 2002).

During 1997–1998, the central government managed to strengthen the power of the regulatory agency Chinese Securities Regulatory Commission (CSRC), thus limiting the power of local governments, state agencies, and stock exchanges in shaping stock market development (Green, 2003). Many characterize the years after the promulgation of the Securities Law in 1999 as the beginning of serious attempts to dissociate

the stock market from the legacy of central planning (Wang, 2011). The CCP also brought many experts trained in the West to lead the further liberalization of the stock market in the 2000s. China's official entry into the World Trade Organization (WTO) in 2001 marked a new beginning of China's economic integration into the world and sent a strong message of China's commitment to market economy. In the years after 2001, the Chinese stock market outperformed the stock markets of most other transition economies on many standard measures of performance, including the number of listed firms, market capitalization, liquidity, and fundraising capacity (Pistor & Xu, 2005; Wong, 2006). Today, it is one of the largest stock market in the world by market capitalization and an indispensable institution in China. More interestingly, unlike many other transition economies, where the transition to capitalism accompanied the collapse of communist regimes, the CCP has maintained its communist claims and its position of authority.

Given the phenomenal success of the stock market in China and the paradoxical co-existence of a communist party leadership, China's adoption of the stock market provides a unique context for studying the construction of authority in polarized transition. Our premise is that a stock market in a transition economy does not automatically lead to higher firm performance, more efficient allocation of capital, better returns for investors, or economic growth in general. Rather, stock markets can benefit, harm, or have no consequential effect on a transition economy. In fact, many economists believe that establishing a stock market is too radical for transition economies, and is incapable of helping transition economies to achieve promised levels of economic growth and prosperity (Akimov & Dollery, 2008; Arestic, Demetriades, & Kuintel, 2001; Singh, 1997). This is important, because although in capitalist countries, people would not normally question the legitimacy of a stock market, in China, people upset about a bear market, investment losses, and poor company performance, often question the very legitimacy of the stock market. Critics observe strong political motivations of the CCP in being an influential actor in the stock market (Wang, 2011). Moreover, scholars argue that the CCP employed rhetoric as strategic response to the dilemmas and challenges they faced in the transitional period (Lu & Simons, 2006). In the next sections, we analyze how the Chinese reform leadership used rhetoric to justify its authority by discursively portraying the stock market as relevant, important, and beneficial to China.

Construction of CCP Authority in China's Stock Market

Forensic Rhetoric: The CCP as Defendant

During the transitional period, Chinese conservatives frequently attacked market-based practices as capitalist and thus contradictory to the communist ideology (Fewsmith, 1994). This kind of ideological labeling was quite common across the state-owned newspapers and magazines, forming a formidable discursive court with accusations. Many articles in

the *People's Daily* responded to these accusations: they refuted the idea that the nature of a stock market is capitalist and defended the righteousness of adopting stocks and stock markets in China. We label these articles as “forensic rhetoric,” following Aristotle, and we identify two subgenres in the category. Table 3 provides a description and illustrations.

Table 3: Forensic Rhetoric of CCP Reformers.

Audience	The direct audience intended by authors of forensic articles was the conservatives who believed that the stock market was ideologically wrong because it was capitalist.
	More broadly, the forensic audience was comprised of potential market participants who were suspicious, confused, and hesitant in making judgments because of uncertainty in the moral righteousness of the stock market.
Time Orientation	Past. The rhetoric emphasizes Marx's positive words about the stock market and the poor economic conditions of China in the past.
Setting/Discursive Space	Discursive court
Substance of genre	Reformers justified the stock market by defending against the ideological charges. The defense was based on canonical words of Marx and conditions specific to China.
Style	Deductive, theoretical, objective
Image of the Speaker	Courageous defendant of free-market practices for the commonwealth of the Chinese people
Implication for Legitimacy	To construct moral and cognitive legitimacy of the CCP reformers
Illustrations	<p><i>Canonical Message</i></p> <p>The forensic rhetoric of the CCP reformers disregards Marxist ideology's overall claim on capitalism; instead, it invokes Marx's words on the functions of the stock market to argue that the stock market is not ideologically wrong.</p> <p>For example, many articles reference Marx's own words on the shareholding company, pointing out that Marx said that building railways would not have been possible had it not been for the accumulation of capital in a short time due to the issuing of stocks. Many articles also argue that stocks are not instruments of capitalism; in fact, as Marx noted, the shareholding company discarded the private nature of capitalism, and will eventually eliminate private enterprises.</p>

Table 3 (continued)

<p><i>Conditional Pledge</i></p> <p>The CCP rhetoric often shifts to major premises that highlight specific conditions of China. One such condition is poverty. Practice that can lift Chinese people out of poverty is justifiable on a deep moral ground.</p>
<p>Another condition is China's stage in socialist development. Chinese Marxist theorists strategically redefined China's stage as still in an "early stage of socialism" and proclaimed that in the "early stage," some form of market-based institutions such as shareholding companies are permissible and should not be considered a reversal to capitalism.</p>
<p>A related special condition often invoked to justify reform measures is the goal of socialist China, which was redefined in 1978 to be developing the "production force," a central idea of Marx's theory that replaced the previous goal, "class struggle," another mantra of Marxism. The theory emphasizes that the development of the production force is in accordance with the basic interests and needs of the people. Practices that can enhance the production force, such as the exchange of goods on the markets, give managers more power and autonomy, and the shareholding form is therefore justified.</p>

Canonical messages. Marxism as an ideology in China is a set of ideas that form a coherent and systematic body of beliefs that actors support through practices such as central planning and structures such as the SOEs, and Marxist ideology was the ground upon which conservatives or the old guard "leftists" launched severe attacks against the stock market. In defending the stock market, reformers delved deep into Marx's work and ideas to establish the consistency of the stock market with Marxism. For instance, in an article published on April 6, 1987, titled "Some thoughts on the shareholding economy," a Marxist theorist argued:

In *Capital*, Marx gave an incisive analysis of the shareholding economy in the capitalist system. He pointed out that the establishment of shareholding companies united many pools of capital that had already emerged or were still emerging. In *The Complete Collection of Marx and Engels (Vol.23, page 688)*, he said, "If we had to wait for accumulation results in some single capitals to become substantial enough to build railways, perhaps there still would not be railways in the world today. However, this accumulation is done through shareholding companies in the blink of an eye."

What is striking about this article is that it does not try to dispute the negative ways that Marx characterized the stock market, such as its gambling and preying nature. After years of propaganda and indoctrination, these criticisms were firmly embraced by the Chinese. However, arguments by Marx on the benefits of stock markets, such as these being perhaps the most efficient way to combine individual pools of capital to build large projects such as infrastructures, were new and very surprising to the average Chinese citizen. The CCP reformers facing the conservatives' accusation defended the stock market by selectively invoking Marx's original words as major premises to

construct arguments in support of the stock market. Referencing an authority figure such as Marx enhances an author's own credibility (Benoit-Barné & Cooren, 2009).

Conditional pledges. In line with accusing an actor's practice as capitalist, capitalist practices were attacked as fundamentally immoral. Conservatives claimed that stock markets would foster a social class that makes money from capital investment rather than from work. The creation of a bourgeois class is in direct opposition to socialist morality. A Shanghai OTC market spokesperson's encounter with foreign reporters during the initial phases of the market in 1986 exemplifies a "court-like" setting (Li, 2001). Although posed by a foreigner, this kind of question captured the gist of the ideological charges by conservatives and was on the mind of many Chinese citizens.

Foreign journalist: The stock market is exploitative. Does establishing a stock market conform to socialist morality?

State official: Our people have lived in poverty for a long time. Does this conform to any kind of morality?

The charge is a typical enthymeme, which is a syllogism with the major premise suppressed (Areni, 2002; Gill & Whedbee, 1997). Here the suppressed major premise is that exploitation is immoral. The claim is that the practice of establishing a stock market is immoral, and the minor premise is that the stock market is a form of exploitation. The state official showed his rhetorical prowess in his response. Rather than directly refuting this charge, he employed an enthymematic argument that implicated another major premise: keeping people impoverished is immoral. The rhetorical strategy here was to emphasize the particularity of China's economic condition in order to make space for exceptions to controversial practices. Many articles in the *People's Daily* that we coded as forensic similarly refer to the unique condition of China to defend against charges that market practices are contradictory to socialist principles.

Rhetorical style and authority construction using the forensic genre. Common to these two subgenres is the dominance of deductive reasoning. Aristotle (1991) observed that deduction in the form of an enthymeme is characteristic of forensic rhetoric. He noted that speakers deploy enthymemes in forensic rhetoric because this rhetoric needs to establish cause-effect relationships. Institutional scholars have found that syllogisms are especially powerful and necessary for justifying new or controversial practices in the early stages (Green Jr. et al., 2009). Our data corroborate this finding and show that deductive reasoning in the form of syllogisms and enthymemes served as justification for an alternative conception of the dominant ideology in the context of China's reform, an alternative conception that then provided the basis for justifying specific reform practices. The use of deductive reasoning provides these articles with rigorous theoretical arguments, which highlight the rationality of the author. Additionally, these articles often employ an impersonal tone to confer an objective and neutral quality on the arguments, suggesting that the claims they make are natural conclusions of logical reasoning. Together, the substance and style of

these articles suggest an important objective: to persuade the audience that the adoption of shareholding companies and a stock market is not ideologically wrong or flawed, but is actually morally sound and desirable. Organizational scholars have found that language can affect perceptions of the moral legitimacy of institutional participants. For example, in the case of hostile takeover initiators, language is used to transform actors' perceptions of the initiators as disreputable villains to perceptions of their being professional game contestants (Hirsch, 1986). In the case of China's adoption of the stock market, the CCP reformers used forensic rhetoric to project the image of an actor who was concerned about the commonwealth of the Chinese people and who had the courage to approve alternative, although politically risky, practices.

Moreover, forensic rhetoric positioned the speaker as the defendant and placed the audience in the role of a jury. The audience (as jurors) was given new evidence—pieces of Marxist canons—that supported the stock market and heard higher-order moral reasons for the defendant's adoption of the stock market. These justifications contradicted the audience's prior beliefs but helped establish new grounds for judging actions as right or wrong. The CCP's use of forensic rhetoric is intriguing from a rhetorical perspective. As the actor with formal authority in governing the country, the CCP was not required to provide justification for its actions. However, considering the legitimacy crisis—the opposition the CCP faced from both radical reformers and conservatives—it was imperative for the CCP to manage its legitimacy. This required the CCP to take on subject positions in relation to the market. The fact that the CCP stretched Marxism to defend the adoption of the stock market and to place its adoption on high moral grounds reflects its attempts not only to justify a new market institution, but also to make its own presence in the new market central and significant. Justifying a controversial market institution in fact gave the CCP a new subject position for claiming its own righteousness.

According to secondary accounts, most individual investors perceived the reformers as brave and progressive and not afraid to champion controversial practices in the face of ideological opposition (Li, 2001). The CCP's vision of itself as “fresh, courageous to engage in reform, and full of vitality” in the 1987 CCP National Congress Report was largely embraced by the public. Many accounts emphasize the strong determination of Zhu Rongji to build the stock market, citing an anecdote about Zhu, then Shanghai City Mayor, telling his subordinates that he would take all the political responsibility for creating the stock market if anything went wrong (Li, 2001; Walter & Howei, 2006). Similarly, our interviewees recounted the power of the pervading conservative ideology at various times during the reform era, describing the reformers as intrepid and selfless.

Epidictic Rhetoric: The CCP as Community Builder

The articles we coded as epidictic report current affairs, describe phenomena, explain concepts, and express attitudes toward them; and we identified two subgenres here as well. See Table 4 for illustrations.

Table 4: Epideictic Rhetoric of CCP Reformers.

Audience	<p>The direct audience intended by authors of epideictic articles was actors who wanted to learn about the stock market with an interest in joining the stock market.</p> <p>More broadly, the epideictic audience was comprised of members of the general public who did not participate in the stock market yet whose attitude toward the stock market was an important source of public opinion.</p>
Setting/Discursive Space	Discursive ceremony
Time Orientation	Present. The rhetoric tells stories of market activities, events, and participants; it focuses on defining and describing what is happening in the stock market right now.
Substance of Language	Reformers praised good deeds, companies and individuals and denounced vicious and scandalous ones by telling lively and dramatic stories and expressing opinions with strong attitudes.
Style	Example based/inductive, extensive information, amplification, vernacular language, personal, emotional
Image of the Speaker	Community builder knowledgeable about the technicalities, rules and roles of the stock market and market participants, capable of setting values and norms for conducts
Implication for Legitimacy	To construct cognitive and moral legitimacy of the CCP reformers
Illustrations	<p><i>Feature story</i></p> <p>The epideictic articles in the form of feature stories praise heroic and capable managers taking risks and transforming their companies into shareholding forms that ultimately have a successful IPO on the stock market. For example, one story describes a village CCP Party leader who led an entire village out of poverty and into admirable wealth by establishing shareholding business groups. Another story describes the courage and vision of the managers of the Shenzhen Stock Exchange, who established and operated the first OTC market in spite of misunderstandings, suspicion, hostility and even life threats.</p> <p>Other stories include: managers of securities companies who greatly expanded the role of investment banks in China's stock market; zealous and risk-taking individual investors who made unbelievable profits from investing in the stock market in times when others were risk averse and timid; workshops and conferences that discussed the current condition of the stock market and educated the public on how to participate in the stock market; and cities and regions that encouraged companies to adopt the shareholding form and thus were successful at building a modern, competitive economy.</p>

Table 4 (continued)

Opinion Piece

These epideictic articles in the forms of editorials and opinions often take a critical view toward stock-market practices and participants. For example, one article labels corruption, bribery, and fraud as the ghost of devils in the stock market. Many articles denounce the embezzling of state assets of SOEs restructuring into shareholding companies. Many criticize companies for their poor performance, irresponsible management, lack of transparency, and greed.

Many articles between 1997 and 2000 pointed out problems related to SOEs as listed companies. During these years, the CCP embarked on a plan to revamp SOEs. One of the methods was to use the stock market as a venue to fund SOEs. The policy made it much easier for SOEs to get approval for IPOs than privately owned or collectively owned companies. However, many SOEs, when listed, showed poor performance and yet they kept exploiting individual investors through false information, manipulation, and promises of reform and restructuring.

Feature stories. The articles in this subgenre are in-depth profiles and detailed, concrete stories extolling or criticizing a company or individuals. They were written by *People's Daily* journalists. The coverage is often full of vivid narratives and dialogues, rich in depictions of characters, emotions, and practices, and presented in highly ornamented writing. Take, for example, an article about a SOE entitled "In Search of Excellence: A Story of Shenzhen 'An Da' Company," published on April 8, 1993. The title borrows the name of the bestselling business book by Tom Peters. The article portrays how a new general manager turned a small, struggling SOE into a shareholding company with skyrocketing profits, a vastly expanded business scope, and a superior corporate structure built for intense market competition. This company was the fourth company to be listed on the Shenzhen Stock Exchange. Many similar stories praise or condemn various market participants and events with depictions of dramatic plots and incredible characters in language designed to create theatrical effects.

The content and style of these feature stories form a coherent subgenre. Underlying these stories is the voice of someone who has the conviction that the stock market is a good thing and who has acumen in the stock market business. The lively descriptions and narratives are intended to help the audience overcome the difficulty of learning about the stock market from abstract theories. Abundant and detailed stories about neighbors and neighboring companies help the general public transform this foreign, unfamiliar practice into one that is intimate and familiar. In addition to cognitive comprehension, these articles have the style to induce curiosity, excitement, and enthusiasm from the audience, thus attracting potential participants, such as retail investors, companies looking to issuing shares, financial institutions, and accounting and legal professionals, to jump in and become part of this exciting activity. Through the display of commendable or despicable people and deeds, these epideictic

articles are also intended to induce shared understandings and attitudes in the audience, thus facilitating the formation of a community of market participants with emotional bonds.

Opinion pieces. The articles in this subgenre consist of opinion pieces and editorials that express strong negative or positive attitudes about a current practice or trend. The editor, contributors, and guest commentators write these articles. It is important to recall that the editor-in-chief must approve all articles in this most authoritative CCP-controlled newspaper and that top party leaders monitor these articles closely. Various forms of opinion pieces closely reflect the understandings and attitudes of the CCP (Wu, 1994). Accordingly, negative criticisms carry significant weight, especially in editorial pieces. In fact, these editorials are often accompanied by state actions and material consequences such as regulatory agency investigations of fraudulent behaviors and sudden drops in the stock prices of certain companies. More importantly, these opinion pieces and editorials serve ceremonial purposes: by publicly denouncing certain companies and behaviors, they establish norms and values that shape the behaviors of the community and foster self-regulation on the part of other market participants.

The *People's Daily* published only two front-page, headlines, "Special Guest Commentaries" in the first ten years of the stock market development. These two Special Guest Commentaries have become the most dramatic and memorable events in the minds of Chinese investors. They were published at moments of great uncertainty and they sent strong messages that had a profound impact on the stock market. The first "Special Guest Commentary" on December 16, 1996 caused the market to plummet from its peak. The second one on June 15, 1999 was credited for setting in motion a two-year long bull market. Although the two Special Guest Commentaries are distinctly different in their tone and style, they each made a huge impact on the discursive and interpretive landscape. In this and the next sections I analyze in greater detail the 1996 and 1999 commentaries as quintessential examples of epideictic and deliberative rhetoric respectively.

The 1996 "Special Guest Commentary" appeared against a background of a roaring market. After two years of a bear market, the stock market saw a powerful upward movement in the market from April 1996 to December of 1996. This rapid rise in price in such a short period raised concerns for the Chinese Securities Regulatory Commission (CSRC) that the stock market was overheating. With the intention to cool the market, the CSRC wished to signal a tightening of control and thus issued several rules and reports on strengthening the monitoring and supervision of investment banks, brokers, and the movement of the stock market. The commission also repeatedly issued warnings about improper speculation, irresponsible comments by securities analysts, and potential illegal trading in the market. In addition, the director of the commission stated publicly that speculative behavior was bad for the market. Even more serious, the CSRC began to prosecute some commercial banks that violated rules for registering new securities. As one noted historian of China's

stock market observed, the government sent altogether 15 warnings to the public (Li, 2001). However, these signals did not seem to put a brake on the soaring market.

On December 15, 1996, the Chinese Central Television (CCTV) station broadcasted the commentary on the 7 o'clock news the evening before it was published in the *People's Daily*, and then repeated the broadcast every hour for seven hours. One of our interviewees remarked that he still remembered the stiff face of the news anchor who delivered the segment. The unprecedented broadcasting of a news article was a shocking event for many individual investors (Li, 2001). When the editorial appeared in the *People's Daily* the next morning, it also appeared as a reprint in every major newspaper. The two newspapers that did not reprint the piece on the 16th, *Shanghai Securities News* and *Securities Times*, received a warning from the CSRC and had to reprint the commentary the following day. This theatrical display of the CCP's view of the stock market, a negative one (see below), produced an immediate market crash. On the morning of December 16, all 614 securities, including stocks and funds, plummeted by 10%, the downward price limit set by the CSRC. The steep downfall continued for several days, and the downward trend extended for the rest of the year, making it a historic crash. Our interviewees mentioned this dramatic event as an important turning point in the development of China's stock market. More than a decade later, this discursive event was still ever present in the collective psyche of the market. In fact, a fake *People's Daily* commentary circulated on the internet in April 2007 had a tremendous effect on the market. Figure 7 graphs the move of stock market indexes before and after the publication of this article.

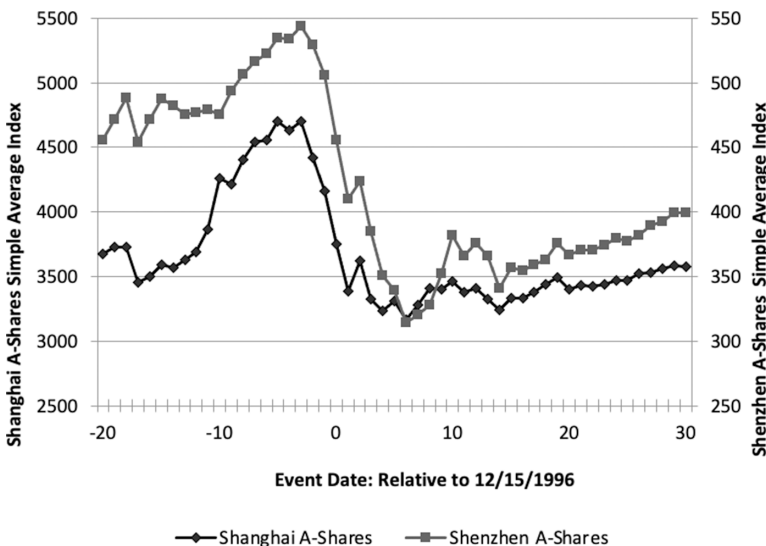


Figure 7: Movements of Market Returns around the Special Guest Commentary on Dec. 16, 1996.

People were curious as to who had authored this article. Rumors at the time named then Vice Premier Zhu Rongji as the author of this piece (Green, 2004). This mystery was solved when Zhou Zhengqing, the third CSRC chairman from July 1997 to February 2000, admitted in 2003 that he wrote the 1996 and the 1999 “Special Guest Commentaries” (Li, 2003). At the time when Zhou wrote these commentaries, he was the director of State Council Securities Committee (SCSC), the government authority of CSRC in the State Council. In addition, several experts suggest that the Vice Premier Zhu Rongji must have approved these commentaries considering the significance of publishing this kind of article in the *People’s Daily*. Many of our interviewees also suggested that the publication of these commentaries needed the approval from at least the Premier Li Peng, or even the Party Chief Jiang Zemin.

The content and style of this “Special Guest Commentary” demonstrate its epideictic nature. Titled “A Correct View of the Current Stock Market,” it compared the current condition of the Chinese stock market to the American stock market disaster in 1929, “Black Monday” in 1987, and the Mexican financial crisis of 1994 to warn that the Chinese market was “abnormal” and “irrational.” It blamed four major players whose actions violated the rules and led to the excessive manipulation in stock trading: SOEs, banks, securities companies, and the media. The language used in the commentary was especially astonishing: it was emotion-laden, full of Chinese idioms that express extreme anger and criticism, and used a vernacular vocabulary that would be easy for commoners to read and understand. One paragraph reproached the SOEs:

[I]nstitutional investors and the Zhuangjia [Big Shots, the House] manipulate the market. Some Zhuangjia with huge assets take advantage of the roaring stock market and the individual investors who follow the wind [jump on the bandwagon]. They repeatedly act as the Zhuangjia and take turns to manipulate prices. These Zhuangjia are mostly SOEs, who rely on their status and connections to summon wind and rain [stir up trouble], and seek exorbitant profits. They stake a billion pieces of gold on one throw [throw away money like dirt] without considering any risks: if they succeed, their waist will become loaded with millions of dough [gain enormous profit]; if they fail, they will transfer the trouble to the state.

The term “Zhuangjia” is Chinese slang referring to SOEs and other powerful investors who manipulate the price of certain stocks. The term is borrowed from the dealer or house in gambling games and has an image rooted in the concept of a landlord in feudal society. Zhuangjia had become dominant and ubiquitous in China’s stock market during the 1990s, to such an extent that many investors based their investment decisions directly or indirectly on the Zhuangjia’s actions. Since individual investors were rarely the winners in this gamble, they often had grievances about the Zhuangjia’s manipulation. Common citizens who were not stock market investors were even more negative about these infamous practices and were suspicious about the integrity of the stock market as a whole. Responding to these negative views, this commentary depicted the Zhuangjia as despicable, employing empirical evidence and statistics to prove that its view of the stock market was correct, and projecting strong emotions to show the CCP’s unyielding determination to condemn those violating the rules. The

delivery of the message in major media outlets throughout the country reaffirmed the CCP as the authority to define what was happening and set the rules of the game. More interestingly, by directing criticism toward established power structures such as the SOEs, banks, securities companies, and the media, the CCP showed its solidarity with the exploited. To strengthen its identification with individual investors, the CCP commentary even adopted the vernacular language, such as calling manipulators “Zhuangjia,” which portrayed the CCP as itself being taken advantage of by the manipulators and thus sharing the anger and frustration of individual investors. The message of the CCP was received as intended: these audiences listened and panicked; they immediately withdrew from the market, causing the big plunge. Interestingly, the regulators had sent the same messages through many changes in policies and administrative measures, yet these market participants only responded to the Special Guest Commentary in the *People's Daily*.

Rhetorical style and authority construction using the epideictic genre. The epideictic articles stand in contrast to the logical, objective, neutral tone assumed by forensic rhetoric; instead, they offer lively examples of people and firms, show strong personal attitudes toward them, and often adopt the vernacular language. Contemporary rhetorical scholars emphasize the purpose of epideictic rhetoric as definition and education (Condit, 1985; Johnson, 1970; Perelman & Olbrechts-Tyteca, 1969; Sullivan, 1991). Speakers gain authority through their ability to define (Condit, 1985). Epideictic rhetoric educates the audience about the particular values, beliefs, and cultures of the community and produces communal bonds (Poulakos & Poulakos, 1999). Epideictic rhetoric creates and defines a world of realities and invites the audience to evaluate the verisimilitudes of the speech (Sullivan, 1993). Organizational scholars have established the connection between rhetoric and cognitive legitimacy (Hirsch, 1986). Hirsch's (1986) study of the linguistic framing of corporate takeovers, for example, illustrates how invoking popular-culture images such as white knights to talk about takeovers enhances the cognitive legitimacy of the innovation by making it familiar, comprehensible, and bounded, with clear role expectations. Consistent with these findings, our analysis suggests that the epideictic rhetoric represents the CCP's attempt to establish a community of participants and to create and enforce norms and rules for new practices in a young market with few formal or informal regulations and norms.

Furthermore, our analysis suggests that the epideictic articles in the *People's Daily* positioned the CCP as community builders like preachers or teachers, simultaneously placing the people in the role of observers. Through the epideictic rhetoric, the CCP projected an image of a knowledgeable, wise, charismatic, and confident speaker who was eager to intervene in the market by expressing personal views. The CCP attempted to earn its right to speak through its display of knowledge and attitudes. The legitimacy of the speaker would be judged based on the truth and verisimilitude of the speech (Sullivan, 1993). The audience learned how the stock market works, and through this came to understand and accept the CCP's role in defining what was acceptable and appropriate behavior for market participants. In sum, epi-

deictic rhetoric allowed the CCP to take on new subject positions and naturalized its central role as a community builder in the stock market.

Deliberative Rhetoric: The CCP as Manager

Deliberative rhetoric in the *People's Daily* constitutes another genre of the CCP discourse. Consistent with Aristotle's definition, the deliberative articles focus on the means instead of the ends, emphasizing the advantages or disadvantages of future actions. In contrast to forensic and epideictic rhetors, deliberators were not as concerned with the morality or virtue or vice of stock trading; instead, they were concerned about *how* to trade stocks. Numerous articles in the *People's Daily* are concerned with "how to" questions. These articles advocate policies, offer advice, and propose solutions to problems, and many renowned economists and policy makers author these articles. We label this subgenre the "policy paper." See Table 5 for more examples.

Policy papers. As an example, Dong Furen, an economist and vice director of the Finance and Economics Committee of the National People's Congress, wrote a 295-paragraph and nearly 9,000-word piece titled "Take Meticulous Care to Nurture the Securities Market," published on June 21, 1999. The article acknowledged the rapid development of the stock market, yet argued that many urgent problems were hindering the market's further growth. Dong thoroughly reviewed the structures and functions of bonds, mutual funds, and institutional investors, as well as the size, share structure, corporate governance, and performance of the listed companies. He noted that a major problem in China was that one of its objectives in developing the stock market was to support the SOE reform, as opposed to the common functions of a stock market in a market economy, i.e., raising money for companies and allocating resources efficiently. Dong argued that China's stock market would face enormous risk if it served only to raise funds for SOEs. The issue of using the stock market as a cash cow for SOEs was very controversial, representing the structural contradictions between the function of the market economy and the communist ideology that favors SOEs. In contrast to forensic or epideictic rhetoric, which focused on accusing wrongdoers or shaping attitudes toward disgraceful behaviors, Dong's article—like most deliberative articles—sought practical solutions to problems. Their deliberative rhetoric focused on how best to take into consideration the interests of all the parties involved. Dong's article proffered specific and realistic action plans based on sound logical reasoning, with many examples.

Deliberative rhetoric can also have material effect on the movement of stock price. The second "Special Guest Commentary" in 1999 came at a time when the market had been on a continuous downturn for two years. The market took an upward turn on May 19, 1999, and kept rising for the next 20 days. Whether this turn indicated a bottom to the bear market or simply a short-term move up before the continuation of falling prices was on everyone's mind (Li, 2001). People were looking anxiously for

Table 5: Deliberative Rhetoric of CCP Reformers.

Audience	The direct audience intended by the authors of deliberative rhetoric is comprised of market participants. More broadly, the deliberative audience can be all the people who think that the stock-market development is relevant to their well-being.
Setting/Discursive Space	Discursive assembly
Time Orientation	Future. The rhetoric focuses on what to do next with regard to stock market development.
Substance of Language	Reformers urged (deterred) policies and actions that would bring advantage (harm) by giving reasons for why such policies were efficient and effective (unproductive).
Style	Combination of theoretical reasoning and practical reasoning
Image of the Speaker	Capable, rational decision maker
Implication for Legitimacy	To construct pragmatic legitimacy of the CCP reformers
Illustrations	<i>Policy Paper</i> The deliberative rhetoric in the <i>People's Daily</i> is distinguished by its focus on the question of how to make the stock market function better: more efficient as the mature stock markets in the West, healthier with more institutional investors, more transparency, laws, protection of the interest of small investors, and more effective as a tool to advance the economy as a whole by aligning the stock-market practices with other reform measures, such as the restructuring of SOEs into shareholding companies, the reform of the banking industry, the development of the social security fund, and the advancement of professional services related to the stock market, such as investment banks, lawyers, accountants, and traders. It is relatively easy to distinguish these deliberative articles from forensic and epideictic articles, as they are not concerned with expressing value judgments, nor are then interested in laying charges or blames. Instead, they treat problems, deficiencies, and conflicts as something that can be fixed and resolved, and they are interested in proposing ways to do these things effectively.

signs. The publication of the article by the “Special Guest Commentator” in the *People's Daily* on June 15 came at this critical moment. This article, entitled “Standardizing Stock Market Development with Firmer Confidence,” states that the recent market rise “reflects the actual condition of the macro-economic development and the inherent demand of market operations, is a normal, restorative rise.” More importantly it declared a series of policies that energized the market. Encouraged by this commentary, the market soared 25% in half a month, and the market continued its rise for the next two years. Figure 8 graphs the moves in stock market indexes before and after the publication of this article.



Figure 8: Movements of Market Returns around the Special Guest Commentary on Jun. 15, 1999.

In contrast to the 1996 commentary's epideictic reasoning, the 1999 commentary is distinguished by deliberative reasoning. Specifically, the commentary gave specific instructions to some major market players as to what they should do to improve the market performance. These instructions or guidance were supported by arguments about the practical benefits of these actions to various market constituencies.

Securities regulatory agencies should strive to maintain the market principles, conscientiously improve the standardization of conducting regulatory work. Reform the share issuance policies, open up the IPO approval process, enhance the transparency of regulatory work; investigate illegal activities on the basis of laws, in order to practically protect the interests of investors.

Listed companies should comply with the law in disclosing information, . . . to reward investors with better performance.

Further expand the experimentation of securities investment funds, accelerate the rate of nurturing institutional investors. Fund management companies should improve operations and management, in order to increase investment returns.

Implicit in these arguments is the voice of a decision maker who makes rational judgments about the advantages and disadvantages of particular courses of action within particular social relationships and situations. It is also a voice that urges the audience or Chinese people to take actions on the basis of these deliberations. The decisive and

authoritative tone of the rhetoric created effects that no issuances of policies or rules would have achieved.

Many articles in the *People's Daily* give recommendations or announce actions, plans, and policies. Rhetorical theory suggests that deliberative rhetoric speaks to a different audience than do forensic and epideictic rhetoric and constructs a different speaker–audience relationship. The immediate audience for the deliberative rhetoric in the present study was comprised of stock-market participants. Compared with the general public and market observers, who are more interested in debating whether the market is moral or conforms to ideal models, market participants are more concerned about how to move forward within the current situation. For example, investors read deliberative articles in order to make decisions about whether to maintain or change their current positions; issuers read deliberative articles in order to gauge whether it is an optimal time to issue stocks; and market makers read deliberative articles in order to formulate business strategies. Market participants were acutely aware of the market's structural problems, such as policies favoring SOEs, the lack of transparency and monitoring, and the dubious role of institutional investors. However, market participants are more interested in knowing the courses of action that will best advance their goals and interests in this political arena. Deliberative rhetoric focuses attention on how to correct deficiencies and improve the technical aspects of the stock market in order to increase efficiency and benefit all participants.

Rhetorical style and authority construction using the deliberative genre. Compared with forensic or epideictic articles, the language of deliberative articles is a blend of theoretical reasoning and practical wisdom. The focus of these articles is an attempt to urge or to deter certain actions. Through the use of deliberative rhetoric, the CCP took on the subject position of a manager or strategist speaking to employees or followers, where the leader assumes authority on the ground that he or she possesses the technical competence and skills necessary to make the most rational decisions for the entire organization (Perrow, 1986). Occupying the subject position of a manager/decision-maker, the CCP authorized itself to speak about the benefits and costs of alternatives and to design plans for action, thus highlighting effective means for achieving common goals. This rhetoric directed market participants' attention to the practical benefits of these new market relationships and practices, simultaneously pushing into the background the ideological contradictions that might exist between the CCP's communist ideology and its capitalist practices. Deliberative rhetoric not only further solidified the legitimacy of the new market institution; it also signaled the CCP's ability to manage the market and thus placed the CCP at the core of these market relationships and activities.

Using Rhetorical Genres to Contain Institutional Contradictions

The CCP reformers' decision to establish stock markets in China was a risky move with uncertain outcomes. China's polarizing institutional context posed challenges to the legitimacy of the CCP reformers. The push toward market liberalization and the pull from the conservative ideologues placed tough constraints on the discursive possibilities through which the reformers could make a case for legitimacy (Lu & Simons, 2006). Overly aggressive market liberalization could agitate the conservatives and potentially lead to the downfall of the leadership, while too little reform could give the impression of incompetence and damage the reform leaders' credibility.

We argue that the CCP reformers' rhetoric in the *People's Daily* is a strategic response to the exigencies of the rhetorical situation that they faced. These rhetorical responses create discursive spaces for settling institutional contradictions in the situation and creating new possibilities. New topics and styles in the *People's Daily* have always meant more than the articles themselves; they often reflect political struggles or foreshadow significant changes. For example, one of the most successful private entrepreneurs in China recounted how he decided to start his own business: One day he read a strange article in the *People's Daily* about how to raise cows, the sort of topic that had never appeared in a newspaper devoted to political indoctrination. He interpreted this as a signal that the CCP had approved the development of businesses and enterprises and therefore acted upon it (Ling, 2003). Consistent with the story of this entrepreneur, the fund managers and investment bankers we interviewed all admitted that they paid close attention to the CCP policy orientations, and some said they watched the CCTV evening news closely to decipher the message of the CCP. For example, fund managers and traders pay careful attention to the CCP's rhetoric in specific sectors, industries, technologies, or regions to predict the trend of stocks in those segments.

The forensic genre as a discursive space for rectification. The forensic rhetoric of the CCP reformers responded primarily to the conservatives' antagonistic ideological charges. China's political culture values the rectification of names, a Confucius doctrine that emphasizes the righteousness of a ruler or action as necessary for subsequent success (Zhao, 2009a). The forensic genre represented the effort of the CCP to open up a discursive space for addressing these contradictions and publicizing its own justifications for its action. Although directly refuting the charges made by the conservatives, the forensic rhetoric served to alleviate conflicts among the audiences. Although the defense put forth by the CCP was directly targeted at the party ideologues, the reformers managed, through their invocation of Marxist canons to justify the stock market, to reassure the old guard that adoption of a stock market would not entail abandoning Marxist ideology. This rhetorical move was important because it signaled to the conservatives that the reform was not meant to overthrow the political power structure. This defense also lessened the resistance of others who embraced Marxism by providing them with new information about Marx's ideas. To the other end of the political opposi-

tion—those who espoused a more radical agenda—the reformist forensic rhetoric demonstrated that the reform leaders were capable of making a commitment to the most capitalist market institution, which raised their hopes for further market liberalization. Using the forensic discursive space, the CCP dealt with an antagonistic and difficult rhetorical situation by openly discussing institutional contradictions while containing these contradictions within the realm of discourse.

The epideictic genre as a discursive space for cultivation. The epideictic rhetoric of the CCP reformers responded to a situation where multiple values and norms coexist and compete. Epideictic rhetoric tackles opposing value and belief systems through “its ability to weave in and out of opposite systems of thought” (Poulakos & Poulakos, 1999: 67). Compared to forensic rhetoric, which asks the audience to take a definite side in the dispute, epideictic rhetoric brings competing value claims into productive debates and dialogues (Danisch, 2007). The consequence of the forensic defense in China was a matter of life and death for the stock market: reformers failing to defend the legitimacy of a stock market in a communist country could lead to the downfall of the stock market and tarnish the reputation of the reformers. In contrast, rather than providing an ultimate verdict for a practice, epideictic rhetoric opens an opportunity for inquiry into competing claims, which often helps actors make sense of contradictory value systems (Poulakos, 1988). The CCP reformers used epideictic rhetoric as a discursive space to connect the participants in and practices of the stock market with the broader value systems upheld by society, thus cultivating a community of players and practices. Many articles accentuated traditional values that affirm the virtue of wealth and productivity based on hard work, intelligence, and monetary incentives. These articles competed with the communist values that the CCP had emphasized in the past, which had downplayed the costs of poverty in order to extol the virtue of equality and equal outcomes. Numerous articles described amazing transformations of SOEs into shareholding companies, highlighting the value of private ownership, decision autonomy, individual freedom, and independence, all of which subtly compete with established communist values. Epideictic rhetoric invites the audience to appreciate and understand similarities and differences in opinions about a practice. This helped create a bond between stock market nonparticipants and market participants, with the potential of converting nonparticipants into participants.

The deliberative genre as a discursive space for negotiation. The deliberative rhetoric of the CCP reformers responded to a situation with emerging interest groups competing to win in the market. Deliberative rhetoric handles conflicts and contradictions differently than do forensic and epideictic rhetoric. Deliberation requires taking into consideration the conflicting interests, needs, and opinions of citizens in order to decide on a particular course of action. Deliberation allows people to use politics to resolve their conflicting needs and disagreements (Bickford, 1996). By employing the deliberative genre, the CCP opened up a discursive space for market participants to resolve conflicts through negotiation. Within this deliberative discursive space, moral and evaluative judgments were placed on hold while market participants focused on practical outcomes

and action plans. Contradictions between ideological orientations and value systems were translated into material terms and strategies for playing the game.

Authority Construction in Progress: Changing the Basis of Legitimacy

Our data suggest that the CCP varied the kinds of rhetorical discourse it employed over time. We argue that the variation reflects the CCP's attempts to gradually shift the basis of its legitimacy claims. Figure 9 graphs the number of articles from the dataset for each of the three rhetorical genres from 1986 to 2004. Figure 9 shows that the CCP used the three genres of stock market rhetoric in-conjunction in most years. Specifically, the forensic genre went through several cycles of peaks and troughs, with particularly strong use during earlier years; Actors use the epideictic genre at a relatively high level throughout this period, and this rhetorical genre was dominant between 1992 and 1999. The deliberative genre rose steadily as time passed and dominated rhetorical discourse after 1999.

To further our understanding of the relative significance between these three genres, we divided the number of each rhetorical genre per year by all of the articles for that year. This gives the proportion of each rhetorical genre's occurrence relative to all three genres for that year. Figure 10 shows the weight of rhetorical genres. Specifically, actors deployed epideictic rhetoric at relatively high percentages throughout the years, with an average proportion of 52%. Actors employed forensic rhetoric

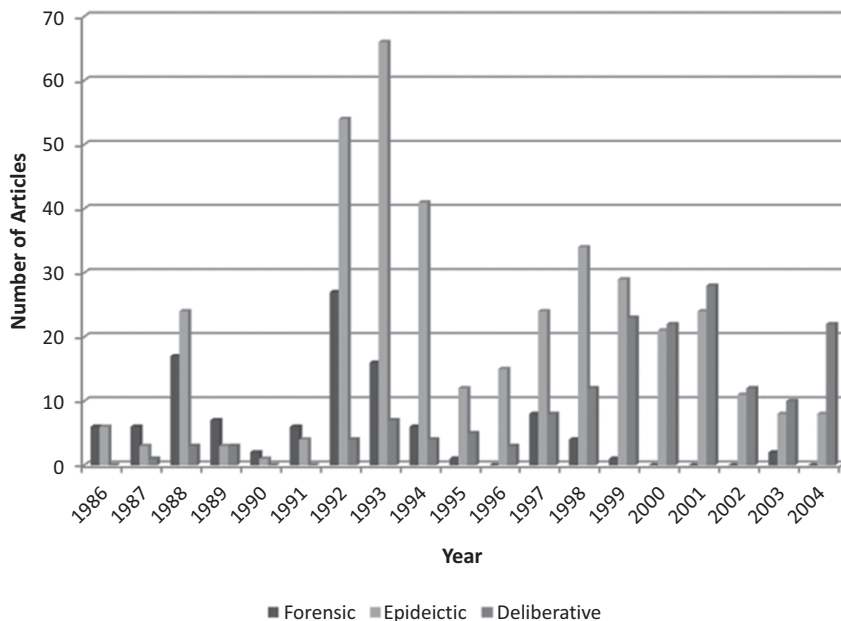


Figure 9: Trends of rhetorical genres in the *People's Daily*.

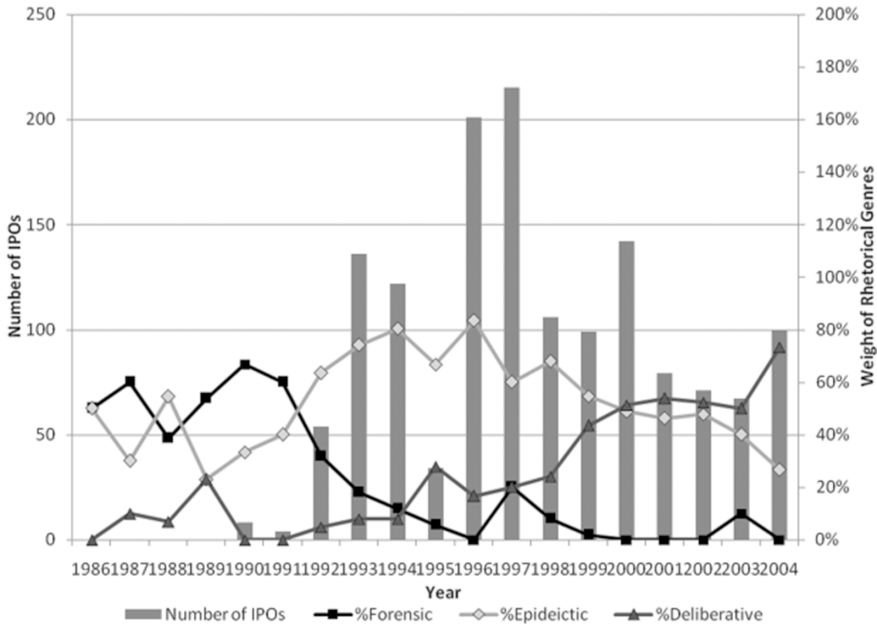


Figure 10: IPOs and relative weight of rhetorical genres in the *People's Daily*.

mostly in the first few years and decreased their use of this rhetoric in later years. Finally, deliberative rhetoric is below 10% on average between 1986 and 1994, rises steadily, and reaches dominance after 2000 with an average of 56%. Figure 10 places the weight of rhetorical genres and the IPO volume together, allowing us to see how different genres of rhetoric correspond with market activities. Forensic rhetoric predominates in most years leading to the official opening of the stock market, and its weight only declines after around the same time Deng Xiaoping reaffirmed economic reform in his 1992 southern tour. Epicletic rhetoric is the most heavily used rhetorical genre in early and mid-1990s, coinciding with extreme fluctuations in IPO volumes. When deliberative rhetoric rose significantly from late 1990s onwards, IPO volume fluctuation decreased.

The change in the composition of the rhetorical genres employed by the CCP suggests changes in the nature of the rhetorical situation and the corresponding shifts in the genre of rhetorical response over time. Specifically, we suggest that there are roughly three stages, each with distinct demands in the rhetorical situation. Table 6 presents these three stages. The first stage—the years leading up to and immediately after the opening of official stock exchanges—was characterized by a rhetorical situation that was ideologically and morally intolerant at best and hostile at worst. This rhetorical situation called for a strong rhetorical response from reformers. Forensic rhetoric is probably the strongest form of rhetoric to deal with these conflicts because the ground for conflict is questions of justice or right and wrong and thus is associated with moral legitimacy (Suchman, 1995). Practices that are established based on moral legitimacy are

harder to justify, yet, once established, are more enduring (Green Jr., 2004). The CCP reformers used the discursive space of the forensic genre to construct the moral legitimacy of their authority. Moreover, combining forensic with epideictic rhetoric, the CCP reformers intended to help unfreeze Chinese citizens' entrenched ideological beliefs and prepare them for the introduction of a new set of practices.

The second stage—from 1992 to 1999—was characterized by extreme volatility in market indices and IPO volumes, speculative trading, and frequent administrative interventions by regulators (Gao, 2002; Ma, 2004; Yao, 1998). The rhetorical situation was wide open for creative manipulation. The CCP did not formulate and implement the Securities Law until 1999. Rather, the CCP used epideictic rhetoric to shape the behaviors of market participants such as denouncing SOEs, banks, securities companies, and media of their unruly manipulation or praising listed companies for their performance and individual investors for their investment tactics. This echoes Steven Lukes's idea of the third face of power, that is, power exercised to prevent conflicts from arising in the first place by shaping the very desires and wants of those being influenced (Lukes, 1974). Rhetorical theorists posit that epideictic rhetoric increases adherence to general values that might later support deliberative arguments about specific actions (Perelman & Olbrechts-Tyteca, 1969). As such, epideictic rhetoric is reminiscent of Weber's charismatic authority, strengthening the leaders' emotional appeal. Epideictic rhetoric is a milder form of rhetoric than forensic rhetoric for dealing with conflicts. It does not seek prosecution but rather focuses on reinforcing good behaviors and sanctioning bad ones. It does this by appealing to the audience's ability to comprehend and therefore is associated with cognitive legitimacy (Suchman, 1995). Epideictic rhetoric is useful when formal laws are missing and when actors develop binding norms to institute and stabilize a field of action.

The third stage—from 1999 onward—was characterized by exponential market growth as well as standardization of many practices and roles. Institutional investors experienced rapid growth and formed stronger interest groups. Law firms and accounting firms also helped standardize rules and procedures. The rhetorical situation was ripe for rule-based participation and negotiation. The CCP reformers shifted their focus from constructing moral and cognitive legitimacy to constructing pragmatic legitimacy. Deliberative reasoning took place at this stage because market participants had overcome both the moral barrier concerning whether the stock market was right and the cognitive barrier concerning how the market operates. The discursive space was now open to reasoning about how to coordinate and work within these new social and market relations, with the aim of discovering and implementing the best courses for future action. By engaging in deliberative reasoning, the CCP complemented the moral and cognitive bases of its legitimacy with a pragmatic focus, shifting the focus to weighing benefits and costs in order to propose executable plans. Deliberative rhetoric is the least confrontational of the three genres, dealing with conflicts through political negotiation. It highlights that the speaker is concerned with maximizing collective value and has the ability to calculate, negotiate, and implement the best practices. Deliberative rhetoric is associated with Weber's rational-legal form

Table 6: Stages of Rhetorical Construction of CCP's Authority in the Stock Market.

	1 st Stage	2 nd Stage	3 rd Stage
Time Period	1986–1991 (years leading to and after the opening of official >stock exchanges)	1992–1999 (rapid growth and huge fluctuation in market activities)	2000–2004 (institutionalized rules and structures, less volatility and fluctuation)
Rhetorical Situation	Morally hostile toward the stock market	Competing norms and understandings emerge	Norms well accepted, interest groups start forming
Dominant Rhetorical Genre of the CCP (Aristotle's typology)	Forensic: Reformers defended against the ideological charges. The defense was based on canonical words of Marx and conditions specific to China.	Epidictic: Reformers praised good deeds, companies and individuals and denounced vicious and scandalous ones by telling lively and dramatic stories and expressing opinions with strong attitudes.	Deliberative: Reformers urged (deterred) policies and actions that would bring advantage (harm) by giving reasons for why such policies were efficient and effective (unproductive).
Style of Rhetoric	Deductive, theoretical, objective	Example based/inductive, extensive information, amplification, vernacular language, personal, emotional	Combination of theoretical reasoning and practical reasoning
Objective of Rhetoric	To establish the ideological righteousness of the stock market in socialist China; to ascertain the ideological uprightness of the CCP.	To normalize the market by demonstrating appropriate roles, behaviors, and relationships in the stock market; to showcase the knowledge and power of the CCP.	To develop the stock market by laying out specific actions plans that would benefit the market itself, people, and the economy; to place the CCP leadership at the center of making the critical decisions on how to develop the stock market
Legitimacy (Suchman's typology)	Moral and cognitive	Cognitive and moral	Pragmatic
Authority of the CCP (Adapted from Weber)	Moral and charismatic	Charismatic and moral	Rational–Legal
Function of the Discursive Space	Rectification: allows the CCP to confront ideological contradictions by taking a stand while not directly rejecting Marxism	Cultivation: facilitates the appreciation of competing and contradictory value systems to foster the emergence of shared understandings	Negotiation: highlights practical and interest-based actions in the face of contradictions while pushing to the background moral and evaluative differences

of authority. It constructed the pragmatic dimension of the CCP reformers' legitimate authority, projecting an image of pragmatic and action-oriented decision makers.

Paradoxical Authority: Resistance to the CCP Rhetoric

Although by many accounts the CCP reformers' rhetoric is effective in establishing the CCP's central role in the stock market, the rhetoric is not without resistance. The paradoxical nature of the CCP's authority—a communist party in charge of a capitalist market—is widely acknowledged by researchers and market participants (Green, 2003). Resistance to the CCP rhetoric is demonstrated in alternative explanations for the CCP's intentions. In response to the CCP's forensic defense that it has the moral obligation to use the stock market to improve people's living conditions, China scholars as well as the fund managers and investment bankers we interviewed believe that economic growth is the most important means through which the CCP can hold onto power (Lardy, 2002; Wang, 2011), and that although the CCP's rule is characterized by numerous good policies, these policies are only a way to win public support and solidify its one-party rule (Wang, 2011).

The epideictic rhetoric has also generated backlash. First, excessive and exaggerated praise and blame often produced material consequences for the market (Ma, 2004). Strong criticism like the 1996 Special Guest Commentary led to a market crash and a big loss for many individual investors (Wei, 1999), while overly positive praise enticed many unprepared and impulsive individuals to invest in the market, not realizing that their money was in essence a cheap source for funding ailing SOEs (Wang, 2011). Second, the CCP's rhetoric fostered a unique norm that regards the state as responsible for whether people can make money from the market. When market indices go up, everyone is happy; however, in a market downturn, the agitation of individual investors pressures the government to intervene (Liu, 2009). This places the government in a conundrum: if the government does not intervene to move the market up, it loses the people's support, but if it does intervene, it reinforces the norm that the CCP can be depended upon to save the market. The CCP's interventionist style is a result of the tension between two objectives: developing the market so that it benefits SOEs and thus strengthens the CCP's power base and resource, and regulating the market so that fraudulent activities do not cause widespread discontent and transform market risks into political unrest, thus threatening the CCP's ruling status (Wang, 2011). Both are critical for the CCP's authority, yet they are in conflict because development inevitably implies tolerance for fraudulent activities while tight regulation always depresses market indices. The tension is best demonstrated in the CCP's fluctuation between positive cheerleading and negative criticism to achieve both objectives.

With regard to deliberative rhetoric, market participants welcome reform measures that curtail the administrative power of the regulators and introduce more market mechanisms into the issuance, pricing, trading, and other activities of the stock market. But many of the reforms that the CSRC implemented were difficult because they challenge

the entrenched power or they require the CSRC to relinquish some of its own power. Some observers conclude that the CSRC is in a situation of “regulatory capture” and therefore incapable of carrying out market reforms (Walter, 2011). When asked “Which actor can be seen as the institutional entrepreneur?” in the stock market field, more than half of our 12 interviewees chose the CSRC, and some regarded the state as the biggest impediment to further liberalization of the stock market.

Discussion and Conclusion

The Rhetorical Construction of Authority

Our study contributes to a discursive conception of authority that scholars have advanced through conversation analysis and textual analysis (Benoit-Barné & Cooren, 2009; Brown, 2000, 2004). We further employ rhetorical theory to conceptualize authority as a dynamic and ongoing interplay between the actors, the exigencies of the situation, and the expectations of the audience. In our case, authority involves a continuous effort to take stock of a rhetorical situation and provide rhetorical responses that target specific audiences, create new speaker-audience relationships, and manage the conflicts in the situation. The fact that the CCP shifted the specific combination of rhetorical genres over time supports the idea that authority construction is an ongoing work-in-progress.

More specifically, we use rhetorical situations and rhetorical genres as our analytical frames for understanding authority construction. We show how each of the genres of forensic, epideictic, and deliberative rhetoric contribute in distinctively different, yet complementary, ways to different demands in the rhetorical situation. The CCP responded to the exigencies of situations by using rhetorical genres that fit with the situations. Specifically, in a situation where ideological and moral charges by the conservative camp threatened the very existence of the stock market, the CCP responded with forensic rhetoric that decisively defended the righteousness of the stock market and alleviated the concerns of the conservative camp. In a situation where things were confusing, chaotic, and volatile, the CCP responded with epideictic rhetoric that defined reality and established norms. In a situation where competing interest groups began to form and demanded action, the CCP responded with deliberative rhetoric that facilitated the negotiation of resources and interests.

Each rhetorical genre creates a distinctive type of discursive space in the field of the stock market. Going beyond the conception of discursive spaces as physical or social spaces, we conceptualize discursive spaces as distinguished by rhetorical genres. This conception of discursive spaces emphasizes the role of rhetorical power—the actors’ ability to use persuasive language—in unsettling existing social practices and relations (Sillince, 2000). Aristotle’s framework provides three principle discursive spaces that rhetoricians may create in texts: courts, ceremonies, and political assemblies. These three types of discursive spaces, with their different structures and styles

of argumentation and narration, delineate the possibilities for action, the boundaries of change, and the relationships between actors in a field.

Within each discursive space, there are specific target audiences and implied speaker-audience relationships. These implied speaker-audience relationships allow the speaker to acquire subject positions that are not innate to the institutional field yet still metonymically confer on the speaker the right to speak. The CCP's real subject position in the stock market is embodied in the roles of various legislative and regulative bodies. However, the CCP was able to assume multiple additional subject positions in the market, such as the positions of defendant of the market's moral legitimacy, priest/educator who cares about building a community of meaningful exchanges, and manager/decision-maker who is responsible for the practical success of the market. By using the rhetorical genres that position the speaker in these roles—which are not natural roles for the CCP—the CCP created additional opportunities to make claims and used those opportunities to shape its right to rule. Without such a variety of additional symbolic positions, the CCP's role would have been restricted to the realm of legislative and regulative discourse. In a sense, through its rhetoric, the CCP made its role in the market much more intense, multifaceted, and central.

However, our findings also point to the limited success of such rhetorical construction. Scholarly research in China and abroad as well as our own research show that the audience, such as fund managers, investment bankers, and financial intermediaries, are aware of the paradoxical nature of the CCP's authority and show resistance to the CCP's rhetoric. The complexity and heterogeneity in the audience interpretation and understanding of the CCP's claims are indications of the differences between authority and legitimacy in practice, as proposed by political scientist Uphoff (1989). By conceptually separating authority from legitimacy, we can incorporate the concept of illegitimacy into discussions of authority, which allows us to pay attention to the illegitimacy of political regimes and more fruitfully study political authorities around the world (Beetham, 1991; Richter, 1982).

Intentionality of Institutional Work

The institutional work literature focuses on how actors and actions affect institutions and further considers the intentionality of actors as a question that is theoretically interesting in itself (Lawrence et al., 2009), and that allows us to evaluate the direct influence of individuals on institutions (Lawrence et al., 2011). Recent studies of institutional work tend to focus on actions and practices; they do not address the question of intentionality or simply assume that the intentionality has to do with creating, maintaining, or changing institutions. We believe that it is critical to examine actors' intentionality because the same actions and practices can have very different meanings depending on the intentionality attributed to them (Li, 2017). Our method gives us a unique vantage point to examine intentionality directly by closely reading an ac-

tor's rhetoric and its context. We had set out to study how actors legitimate new and controversial institutional practices and forms, and from the very beginning we were struck by the strong voice of a speaker who, no matter what the specific topic was, seemed to have objectives beyond conveying the content of an article. By combining rhetorical situation theory and genre analysis, we show that while the explicit objective of the speaker was the justification of the controversial stock market practices, the implicit objective was the continuing maintenance of authority. The latent meaning and the manifest meaning are intended by the actors to mutually reinforce one another, even though these meanings can be contradictory. This is consistent with research in identity construction that finds that actors actively construct identities through the work they claim to do (Creed, Scully, & Austin, 2002; Weber & Glynn, 2006) and that discourse regulates identities by "establishing and clarifying a distinct set of rules of the game" and "defining the context" (Alvesson & Willmott, 2002, p. 631; Gagnon & Collinson, 2014; Phillips & Hardy, 1997).

By identifying the construction of authority as an implicit intention of actors' discursive activities, our paper reveals the complexity of intentionality in the mundane, day-to-day work that actors do to create, maintain, and change institutions. We show how hundreds of articles published over the course of nineteen years have subtly constructed the CCP as indispensable to the field of China's stock market. The CCP's claim for compliance was not accomplished through explicit demands for obedience; rather, it was carefully managed through the fusion of style and content in the publication of daily newspapers. The implicit intentionality plays an important role in endogenous institutional change (Powell & Colyvas, 2008). In contrast to exogenous institutional change, which is driven by environmental shocks, endogenous institutional change relies on the actors' ability to exploit institutional contradictions. Our paper reveals a rationale for why incumbent actors exploit contradictions to enact institutional change: they intend to maintain their authority, even in the most difficult situations where there are apparent contradictions between the change they advocate and the ground for their claims for authority.

Understanding the multifaceted nature of intentionality helps explain how the work of institutional actors can effect institutional change and maintenance at the same time. We showed how actors intended to maintain their authority despite, or rather, because of introducing radical changes. In many institutional studies, change is the antithesis of maintenance, and radical change often occurs only when the establishment or the incumbent actors are overthrown. Recent research has started to explore the complexity of institutional work and the entanglement of institutional creation, maintenance, and change (Hirsch & Beamiss, 2009; Zietsma & Mcknight, 2009; Zilber, 2009). For example, studies have shown that actors can create, disrupt, and maintain institutions at the same time (Zietsma & Mcknight, 2009), that actors can decouple what they preserve from what they change (Hirsch & Beamiss, 2009), and that institutional maintenance can involve both duplication and change (Zilber, 2009). We believe that the entanglement is most evident when the institutional environment is characterized by multiple and contradictory logics, such as in regimes of transition,

where institutional stability and change are often entangled and require actors to be vigilant in managing both stability and change (Martin de Holan & Phillips, 2002). In our case, the CCP simultaneously dismantled numerous existing practices, rules, and beliefs that the CCP had earlier endorsed and created or reintroduced numerous other practices, rules, and beliefs that the CCP had previously opposed. Both dismantling of the old and creating of the new threatens the legitimacy basis of actors in authority positions, because the contradictory actions invite challenges from both the conservative and the radical critics; and this is why regimes often collapse and leaders are replaced during times of such transition. We believe that what makes the case of the CCP unique is more than its strong hold on coercive power; its uniqueness also comes from the CCP's rhetorical work. Our rhetoric analysis shows that China's party-state does not passively respond to social changes or simply exert external constraints on an institutional field. Rather, the party-state can be an agent of change (Child, Lu, & Tsai, 2007), capable of reinterpreting dominant institutional arrangements that directly contradict the principles and assumptions that constitute and legitimate its own authority (Clemens & Cook, 1999). The agency of the CCP is demonstrated in its skillful use of rhetorical genres to contain and shape the contradictions in the polarized environment. More broadly, its agency is manifest in the CCP's ability to transform its own identity from a revolutionary party to an administrative party with a vision for reform. The rhetorical work that we explicate here is not just techniques or tactics that enable actors to achieve goals; it is epistemic, that is, a way of constructing knowledge about what is going on (Scott, 1967).

Limitations and Future Research

Our study is limited in several respects. First, our study focuses on ideational constructs such as rhetoric and legitimacy at the expense of material factors. Although we provide information about the material aspects of the stock market, such as the number of listed firms, we have not analyzed these aspects in depth. Many China scholars have already documented the material aspects of China's stock market, shedding light on institutional actors, rules, governance structures, and the economic performance of the market (Green, 2003; Ma, 2004; Walter & Howei, 2006; Wei, 1999; Yao, 1998). Our rhetorical analysis complements these findings and fills in explanatory gaps. For example, those who adopt a sociological realist approach may argue that regardless of the rhetorical moves made by the CCP, China's stock market gained legitimacy because the stock market generated material benefits for people. Our findings suggest that the legitimacy of the stock market does not hinge solely on material benefits. The material gain from stock investment has been uncertain, risky, and volatile for Chinese investors. Without the symbolic acts of the CCP, it is doubtful that the material benefits the stock market achieves will generate legitimacy for the stock market. The social construction of risk is also evident in the market transition process. In the

beginning, the public did not want to bear the risks of investing and blamed the government when they lost money in the stock market (Li, 2001). Yet in later years, the public did not question the legitimacy of the stock market, even when China experienced a five-year bear market in the 2000s. The public has understood what risk means and no longer associates the rise and fall of market indexes with the legitimacy of the market. While acknowledging the economic roles that the stock market plays, our analysis highlights the production of symbolic meanings that order reality for actors (Creed et al., 2002; Phillips & Malhotra, 2008; Zilber, 2008).

A related limitation is the lack of unfiltered public opinion about the legitimacy of the CCP and the state. Without such data, we cannot assert causal effects between the CCP's rhetoric and its legitimacy. We relied on secondary accounts and interviews to gauge public perception. Future research might collect data from more independent media outlets to provide a more systematic measure of the CCP's legitimacy. Our findings of the shift in rhetoric do corroborate academic research on China's political institution. Our analysis shows that the rhetoric of the party coevolves with the shift in its legitimacy basis. Future research may examine more closely how the rhetoric and the material coevolve—for example, under what conditions are material factors interpreted and framed to influence particular audiences, and under what conditions do symbolic meanings change to reflect new material realities?

Conclusion

Notwithstanding these limitations, our findings have implications for the continuing maintenance of authority as actors, interests, and situations evolve over time. The question motivating this study concerned how actors in positions of authority make claims for compliance while introducing practices that contradict their authority in a polarized institutional context. Through an empirical analysis of the CCP's rhetoric on the stock market, this study investigated how the content and style of that rhetoric coalesced into distinct genres, and how these genres represented the discursive space that accommodated the contradictions in the institutional context and afforded actors the right to speak. Actors in positions of authority take on the right to speak and construct new subject positions and relationship with the audience in spite of oppositions in the polarized environment. These claims to authority are nonetheless transient and situation dependent, always subject to new challenges and resistance, which means that authority is a linguistic performance always in the making.

Chapter 5

The Rhetorics That Won: How Three Elite Controversies Shaped China's Stock Market Institutions

Fewer studies of elite agency and power, once central to organization analysis, have appeared in recent years. This is due, in part, to a drift away “from the study of core societal power centers and important policy issues of the day” (Zald & Lounsbury, 2010: 963). Interestingly, as neoinstitutional theory becomes more “agentic,” i.e., taking seriously the role of institutional actors and institutional work (Lawrence & Suddaby, 2006; Lawrence, Suddaby, & Leca, 2009), it still has a relatively underdeveloped conception of elite actors. In fact, elites tend to be regarded the same as the external environment, abstract, unitary, coercive, and exerting isomorphic pressures (Lounsbury & Ventresca, 2003). Taking political elites as an example, institutional theory depicts the state as the powerful and coercive driver of institutions, but does not probe into the processes that lead state actors to exert such pressure (Zucker, 1987). As Hirsch (1997: 1713) noted, the regulative pillar of institutions, which is arguably where many societal power centers are located, “cannot ignore or operate in a vacuum so free of politics, process, and value conflicts.” Yet most studies on institutional politics have focused on coercive strategies of elites such as rule making by regulators and lobbying by powerful interest groups to achieve desired policy ends.

We presently know little about the ways in which elites shape the acquisition and maintenance of legitimacy of new institutions through altering actors' beliefs and assumptions, deemed as the cognitive pillar of institutions (Scott, 1995). Elites invest effort in making sense of and communicating the ethos of their times. In fact, the perpetuation of elite domination largely relies on the ability of elites to provide “moral vocabularies” for a society (Reed, 2012), which are assumptions and understandings that hold institutions together and provide the conditions for their stability and change (Bartunek, 1984; Hardy & Maguire, 2010; Meyer, 2008; Ranson, Hinings, & Greenwood, 1980; Zilber, 2008).

The production of such legitimacy is especially intense when elites disagree and confront one another publicly (Meyer & Höllerer, 2010). Controversies are public events that expose hidden assumptions and surface institutional contradictions, which potentially have long-lasting effects on the institutionalization of a field (Patriotta, Gond, & Schultz, 2011). Controversies are important moments of breach that reveal problems of legitimacy (Schneiberg & Clemens, 2006: 212). However, while scholars agree that there is an important role of rhetoric and communication in shaping legitimacy judgments (Cornelissen, Durand, Fiss, Lammers, & Vaara, 2015; Suddaby, Bitektine, & Haack, 2017), we know little about *how elites' confrontational discursive struggles shape the legitimacy judgment of new rules or organizations in their field.*

We focus on the evolution of stock markets, with a particular focus on controversies and debates surrounding their establishment and the development of subsequent rules and regulations. Elite controversies during policy debates have played a role in the U.S. and other stock markets (Blume, Siegel, & Rottenberg, 1993; Lederer, 2003). For example, in the U.S., the debates between the Friedman traditionalists and Keynesian reformers helped shape the development of rules and policies in the 1920s (Chancellor, 1999). Because the Chinese stock market is embedded in a socialist society, it has more historical basis for strongly held opposing opinions than markets that came from and reflect capitalist economies (Li, Green Jr., & Hirsch, 2018). In China, the arguments for and against certain policies for its stock market carry with them more ideological and passionately held positions than are found in the debates over rules in other countries as their stock markets evolved. We select China's stock market as our case study because it provides a rich context for exploring the role of debates and controversies in the trajectory of institutional change.

China's stock market development has been described as "nothing short of breathtaking" (Wong, 2006). It took off in the early 1990s, the same time as other transition and emerging economies were adopting stock markets. However, it has performed better than the stock market of most other transition economies (Pistor & Xu, 2005). In a study of the diffusion of stock exchanges between 1980 and 2005, Weber and colleagues (2009) observed that coercive pressures from prominent international agencies such as the IMF and World Bank led countries to adopt the stock market ceremonially and resulted in less vibrant markets, whereas normative pressures from elite professional communities led countries to substantive adoption and more vibrant markets. However, these coercive and normative pressures were less present or insignificant in China's adoption of the stock market. In fact, scholars have lamented that "China's rapid economic expansion is a puzzle from almost any perspective we have examined" (Davis, 2012: 47). As we show in this study, historical accounts of China's stock market adoption tell a story of the translation of western ideas, and contestation of heterogeneous opinions among indigenous power elites as the driver for China's stock market development. In this study, we follow Weber, Davis and Lounsbury's (2009) suggestion for more studies to explore how the policies for new stock markets were debated and came to be adopted.

Our study investigates three high profile societal wide debates during the first two decades of China's stock market, between 1980s and 2000s. We analyze how China's market-oriented reform, particularly the development of its new stock market's policies were influenced by competing visions of policy makers and economists. In fact, China's stock market is "at the center of huge, era-defining policy battles between economic reformers pushing for capitalism and conservatives wanting to preserve socialist controls" (Green, 2003: xiii), and it is "highly sensitive to government policies, the overall political situation, and the speculative plays of major institutions" (Walter & Howei, 2006, p. 15). Therefore, a key to understanding the evolution of the stock market

institution in China lies in the confrontational battles among elite actors occupying command posts in the Chinese society.

Our analysis identified two mechanisms: *contentious argumentation* and *presumption*. *Argumentation* is a product and process of institutionalization, i.e., the acquisition and maintenance of legitimacy (Green Jr., Li, & Nohria, 2009; Hoefler & Green Jr., 2016). Our findings suggest that contentious argumentation is a sensemaking mechanism that provides a microlevel anchor for legitimacy judgments of institutionalization processes. We further note *how contentiousness marks the inherent instability and complexity of such a microlevel anchor*. *Presumption* is a communicative and cognitive mechanism in the framing contest for legitimacy. It determines which side of the opposing arguments has an advantage in defending its position, thus influencing the legitimacy judgments of institutional decision makers (Goodnight, 1980; Hoefler & Green Jr., 2016). Positions advantaged by presumption capture an important element of *what is at stake* in these discursive battles. Our study finds that the dominant presumption shifted after every controversy. We propose that shifts in dominant presumptions can be used as a way to track changes in the relative strength of an ideology or schema in a field.

Our findings contribute to the institutional perspective on elites by investigating the fragmentation of elites in the broader fields and how the publicized arguments among divided elites wield influence through their making confrontational arguments. We also contribute to the studies of institutionalization by specifying mechanisms that link microlevel confrontational discursive struggles of elites to macrolevel legitimized meaning structures helps explain shifts in institutional meanings through contestation.

Elites, Controversies, and Institutionalization

There are four types of elites: coercive, allocative, expert, and authoritative (Scott, 2008; Reed, 2012). Coercive elites primarily belong to the domains of military, security, and law enforcement, and they rely on mechanisms of *correction* and *punishment*. Allocative elites, found mostly in the corporate business sector, depend on mechanisms of *accumulation* of capital resources. Expert elites, who dominate professional institutional networks, employ mechanisms of *acculturation* to monopolize the production of expert knowledge in specific domains of social activity. Finally, authoritative elites belong to the upper levels of governments and regulative bodies, and they ensure stability and order through mechanisms of *regulation* (Reed, 2012).

Studies of elites emphasize the perpetuation of elite domination despite conflicts among elites and the circulation and fragmentation of power (Courpasson and Clegg, 2006). Elites generate and reproduce their rule by employing hierarchical forms of domination such as “soft bureaucracy”—sophisticated managerial strategies to legitimize the centralization of power (Lukes, 1974; Courpasson, 2000). Lukes (1974) describes unobtrusive strategies as the third dimension of power, which prevents opposition from

arising in the first place by manipulating people's perceptions and preferences. Conflict and resistance are staved off through the use of political language, symbols, and rituals that give meanings to outcomes and thus legitimize and justify them (Lukes, 1974; Hardy and Clegg, 2006). Whereas research tends to focus on how various types of elites present a unified front to the public, thus ensuring the institutionalization of beliefs and norms sanctioned by the elite apparatus, we know relatively little about the dynamics of elite conflict and fragmentation, especially as they play out spontaneously in the public.

To explore these dynamics, Clemens and Cook (1999) propose to take a broader view of elites to see them as dispersed and distributed power and expertise. The broader view emphasizes the roles that new forms of expertise and communities of expert discourse have in unifying or subverting shared beliefs and interests (Clegg, Courpasson, & Phillips, 2006; Zald & Lounsbury, 2010). According to this view, the command posts occupied by elites encompass a broader field of organizations that not only span the governmental, corporate, and military sectors, as emphasized by C. W. Mills (Mills, 1956), but also include various experts and technocrats in formal governance bodies along with an asteroid belt of command posts such as lobby groups, social movement organizations, and NGOs (Barley, 2007; Greenwood, 2008; Zald & Lounsbury, 2010).

Elite Controversy

Elite controversies—public debates among elites that have wide ramifications in the public sphere—are critical events that display struggles among the powerful for the right to define reality. Studying elite controversies is important for several reasons. First, as critical and disruptive events, they likely attract public attention and thus provide an opportunity to shape public awareness and understanding (Hoffman & Ocasio, 2001; Nigam & Ocasio, 2010). Second, controversies are not predetermined and emerge as actors spontaneously respond to the issue at hand. They are likely characterized by uncertainty and ambiguity and thus present an urgent need for sensemaking (Fiss & Hirsch, 2005; Maitlis & Sonenshein, 2010; Oliver & Montgomery, 2008; Weick, 1988). Controversies provide discursive spaces for alternative voices to be heard, disputed, and interrogated (Hardy & Maguire, 2010), and new perspectives can arise from the opposing views of contending parties trying to make sense of the same environment or issue (Gioia & Chittipeddi, 1991; Weick, 1995). Third, elite controversies signify important moments of breach in groups that are usually perceived as homogeneous (Hoffman & Ventresca, 1999). Such struggles are breaches that most likely reveal problems of legitimacy (Schneiberg & Clemens, 2006: 212). In their study of a controversy sparked by a nuclear accident, Patriotta et al. (2011) propose seeing controversies as “legitimacy tests” that question institutional order. As intense manifestations of elite fractures and divisions, elite controversies provide an opening into the

world of elite conflicts through which it is possible to probe the subtle and complex ways that power and discourse operate. Finally, controversies can be an important site for understanding the purposeful institutional work of actors (Lawrence & Suddaby, 2006; Lawrence, Suddaby, & Leca, 2011). In a controversy, opposing side often have different institutional agendas and use competing or opposing arguments to define institutional logics that attach or deny legitimacy to new organizational practices (Suddaby & Greenwood, 2005).

Controversy is different from conflict. Mainstream management literature tends to see conflict as irrational and dysfunctional problems in need of solving (Ford, Ford, & D'Amelio, 2008). In contrast, controversies are rather generative and open-ended in terms of constructing the boundaries and rules of debates. As meaningful and intensive interactions among actors, controversies constitute the cultural and normative environment in which a focal field is situated. In fact, “specific fields are definable as much by what is held in dispute as by field-oriented consensus” (Goodnight, 2001: 170).

Rhetoric, Legitimacy, and Presumption

Bringing elite controversy into the study of legitimacy naturally invites a rhetorical perspective on institutions. Rhetoric is both a political discourse aimed at persuading audiences and effecting change (Suddaby, 2010) and an epistemic means for understanding the meaning and significance of institutionalized structures (Brown, Ainsworth, & Grant, 2012; Green Jr. & Li, 2011; Green Jr. et al., 2009). In the process of institutionalization—the process by which microlevel intentions and subjectivities transform into macrolevel rules and structures and thus acquiring legitimacy (Hallett & Ventresca, 2006a; Li, 2017; Phillips, Lawrence, & Hardy, 2004; Powell & Colyvas, 2008; Tolbert & Zucker, 1996). Actors employ rhetoric to justify their actions (Green Jr., 2004; Green Jr. et al., 2009), to exploit multiple institutional logics (Oakes, Townley, & Cooper, 1998; Suddaby & Greenwood, 2005), and to construct identities, myths, and power relations in their institutional field (Alvesson & Willmott, 2002; Brown et al., 2012; Covalleski, Dirsmith, Heian, & Sajay, 1998; Creed, DeJordy, & Lok, 2010; Creed, Scully, & Austin, 2002; Maguire & Hardy, 2009). While rhetoric facilitates agency (Putnam & Cooren, 2004), it is also constrained by the power relations embedded in the broader discourse that constitutes social reality and relations (Grant, Hardy, Osrick, & Putnam, 2004; Phillips & Hardy, 1997; Phillips & Osrick, 2013).

Studies that employ a rhetorical perspective have mostly focused on the legitimacy of practices; less attention is given to the legitimacy of meanings that are heterogeneous (Li, 2017). Public controversies are an important site for studying fractures in the meaning systems, thus shedding lights into the multiplicity of meanings and the complex relationships between meanings and practices in the institutionalization process. We highlight and focus attention on two orienting constructs for investigating

the role of elite controversies in institutionalization: *contentious argumentation* and *presumption*.

Contentious argumentation. Legitimacy judgments take place when contentious argumentation between elites surface points of departure and contestation. The ambiguity, confusion, and disorientation in the public present an urgent need for elites to make sense of *what is going on* (Fiss & Hirsch, 2005; Maitlis & Sonenshein, 2010; Weick, 1988). Elites seek to make their opinions known through their priority access to various channels of mass media and their ability to disseminate their ideas within their fields and to the public in general.

In any controversy, there exist an aggressor and a defender. The aggressor may call for change or for a reaffirmation of existing institutions. The defender will defend the status quo in the first instance and advocate change in the second (Whately, 1963). In addition to the disputing opponents, authoritative actors can participate in the controversy by passing laws and regulations or by proffering their own arguments in the midst of the oppositional arguments (Goodnight, 1980). The rules and policies passed by authoritative elites carry significantly more weight in a debate due to their regulatory nature. However, the involvement of authorities in a public controversy does not necessarily bring about determinacy and closure, silence opposition, or quell doubt (Liu, 1997). In fact, positions taken by authoritative judges in one controversy can be revisited and revised in another controversy. Furthermore, controversies are played out in front of the public and the public are both listeners as well as important evaluators of the arguments for making legitimacy judgments (Real & Putnam, 2005).

The “rhetorical institutionalist” perspective (Cornelissen et al., 2015; Green Jr. & Li, 2011) emphasizes that the formation of legitimacy is an argumentative process (Harmon, Green Jr., & Goodnight, 2015; Hofer & Green Jr., 2016). Actors use arguments to shape the beliefs of themselves and others, thus forming the judgment of legitimacy. Few studies have examined the contentiousness of arguments. Arguments are contentious both in content and in form. Contentiousness manifests in the content of debates, for example, the substantive points of disagreements, interrogation of each other’s reasoning, and challenges to each other’s credibility; and it also manifests in the form of debates, for example, the combative gesture, inflammatory language, and aggressive tactics when attacking each other in public forums. Understanding the points of disagreements and the rationales and motivations that underlie these opposing positions and dramatic enactment of debates can help reveal what is at stake as well as the appropriate perimeters of debates.

Presumption. Rhetorical theory maintains that a basic element in any public controversy concerns which side has the presumption and which side has the burden of proof (Goodnight, 1980). As the counterpart to the concept of burden of proof, presumption is defined as “a preoccupation of the ground . . . [that] implies that it must stand good [until] some sufficient reason is adduced against it” (Whately, 1963). For

example, in the Anglo-American jurisprudential system, the defendant is presumed innocent until proven guilty; here the defendant enjoys the presumption and the prosecution has the burden of proof. This assignment of presumption is a rule that expresses a just relation between the state and the citizen (Goodnight, 1980).

More recently, organizational scholars conceptualize presumption as rules that bind the rationality of institutional decision making through arguments (Hoefer & Green Jr., 2016: 132). As organizational researchers wrestle with the relation of presumption to legitimacy, they may see these two concepts as equivalents. However, they are critically different. As a multilevel construct, legitimacy has been understood as a property, process, or perception (Bitektine & Haack, 2015; Suddaby et al., 2017). The common thread among these diverse treatments of legitimacy is that it refers to the substance of a belief (Hoefer & Green Jr., 2016: 134). By contrast, presumption is not about the substance of a belief, but rather about which side of the opposition bears more burden of proof. Using the example of the U.S. justice system, some people might “believe” the defendant is guilty and others “believe” the defendant is innocent, but the court does not have such substantive beliefs. In fact, the court should not give any party’s belief more legitimacy. The court simply abides by the rule that makes the prosecution shoulder the burden of proof. The presumptive tilt that the justice system gives to the defendant does not imply that the supposition favored by the presumption is more likely to be right—a defendant in court is not more likely to be innocent because of the presumption of innocence, but rather is simply not required to prove his or her innocence (Whately, 1963).

Applying the notion of presumption in institutions, scholars note that when a particular philosophy, value, or social thought dominates a field, it determines the kinds of risks that the society or community finds acceptable and the kinds of risks it avoids (Goodnight, 1980). The U.S. justice system is based on values that find the error of convicting the innocent most intolerable, and therefore tilt the presumption to the defendant, which increases the risk of failure for the prosecution (Hoefer & Green Jr., 2016). However, the presumption may change in a field due to changes in the dominant ideology (Goodnight, 1980; Hoefer & Green Jr., 2016). New and oppositional arguments may arise to challenge the existing presumption associated with traditional institutions. As contenders who hold different political philosophies act as the aggressor and defender in a controversy, they employ rhetorical strategies to take on or discharge the burden of proof, thus maintaining or shifting the presumption (Einhorn, 1990). The outcome of a controversy depends not only on whether the arguments are sound, but also on the political strategies of authoritative elites. The argumentative interactions among aggressors, defenders, and authoritative elites can shift the presumption of a society or community from what it was before the controversy to a new one. Once the new presumption is accepted by the society or community, it becomes an “argumentative bind on future judgments and decisions to act” (Hoefer & Green Jr., 2016: 139).

Methodology

This research adopts the discursive approach to institutions, which “sees language as constitutive and constructive of reality rather than reflective and representative” (Phillips & Oswick, 2013). Longitudinal studies of changes in discourse along with shifts in practices are typical of interpretive case studies that help illuminate how actors’ strategic actions interact with the deep structures that embed interpretive schemes and frames (Heracleous & Barrett, 2001; Hirsch, 1986). Specifically, we look at rhetorical arguments as a specific form of discourse to focus on understanding how arguments shape beliefs and the meaning structure of institutions (Green Jr. & Li, 2011; Meyer & Höllerer, 2010; Sillince, 2002).

In addition, this study uses historical methods to study institutionalization. The historical orientation sees social processes as contingent and tends to divide the flow of history into distinct eras punctuated by significant events (Sewell, 2008). To this end, historians ask focused questions that are rooted in present concerns, conduct disciplined explorations and analyses of historical and contemporary literature, and provide theoretical notions as “sensitizing devices” (Scruton & Fridenson, 2013). Recognizing that historical analysis tends to privilege temporal fatefulness and contingency at the expense of producing universal claims, we endeavor to use the historical research and reasoning to generate findings that contribute to the theoretical concerns of organization studies (Wadhvani & Bucheli, 2013). Following exemplars of historical sociology (Fligstein, 1990), we aim to articulate a generalizable framework for answering the focal research questions and thereby contribute to the conceptual development of institutional theory.

Controversy Selection

Numerous controversies have marked the development of the stock market in China from its inception in the 1980s through the present day (Walter & Howei, 2006). Commonly called the “policy market,” China’s stock market is very sensitive to various forms of government intervention (Dong, 2002). Administrative proclamations can often explain the extraordinary peaks and troughs in the trajectories of the share indices (Ma, 2004; Yao, 1998). For example, when China’s reform architect Deng Xiaoping toured the prosperous southern part of China in Spring of 1992 and spoke of “boldly speeding up China’s reform” and “being committed to the stock experimentation,” the stock market responded with a fourfold rise in its indices in five months, hitting its first price peak. On August 1, 1994, after nearly two years of a bear market, the government issued the “three clauses of market-saving policies,” namely, stopping new IPOs, raising capital for securities institutions, and founding fund companies. The Shanghai Stock Market Composite Index, which had reached its lowest value of 325.89 on July 29, jumped to 1052.94 on September 13, a 3.23-fold increase over 44 days.

In May 1997, both the Shanghai and Shenzhen stock exchanges reached new all-time highs in anticipation of Hong Kong's return to the mainland. Other administrative and economic measures used to influence the market include lifting the stock price limits in May 1992, which caused prices to rise; approval of institutional investment in the stock market in February 1993, which caused prices to rise; the extension of the quota for new listings and the normalization of financial regulation, which led to a price trough in July 1994; an announcement of new listings and an increased quantity of government bonds issues, which caused prices to fall in Feb 1995; a halt to government bond transactions, which caused stock prices to jump in May 1995; an expansion of outstanding shares, which caused prices to fall in Jan 1996; reductions of deposit interest rates, which pushed prices higher in Nov 1996; announcements allowing the investment of funds from insurance companies and capital from trust and investment institutions in the shares market, which pushed prices to high points in 1999; serious investigation and punishment of fraudulent trading and misleading information, and a policy of reducing state-owned shares, which depressed the market until 2005. Increases and decreases in the stamp tax have also frequently been employed to influence the market.

In addition to the government policy interventions, elite economists have been conspicuous in the public sphere through their engagement in intense debates and their controversial commentaries about the stock market in mainstream media, both of which have generally attracted the attention of a significant portion of the society (Ma, 2006). Thus, the Chinese stock market is a natural site for studying the relation between elite controversy and institutionalization as an ongoing process.

The selection of controversies for this study was based on several considerations. First, theoretical sampling, that is, sampling based on concepts that are theoretically relevant to the evolving theory (Strauss & Corbin, 1990: 177), guided the selection. Since our focus is on elite fractures that are publicly manifest, we focus on public disagreements between elites, which often take place between prominent economists. Second, the controversies selected for this study are covered by historical accounts provided by various leading authorities, including the China Securities Regulatory Commission (CSRC, 2012), which regulates the stock market, various policy makers (Liu, 2008), economists (Dong, 2002), independent stock market commentators (Li, 2001, 2002, 2005), and journalists (Ma, 2006), and these accounts were produced both in Chinese (Ma, 2003) and in English (Green, 2003; Walter & Howei, 2006). Since these controversies have attracted the attention of actors in various fields, they are likely to generate insight into the world of elites and their role in the institutionalization of a focal field. Third, these controversies are "information-rich cases that manifest the phenomenon intensely" (Miles & Huberman, 1994: 28). There are traces of controversies that unfolded in the legislative and executive bodies of the government or the politburo, as revealed in books by Chinese Marxist theorists involved in policy drafting (Gao, 2010), but information about such controversies is not publicly available. In contrast, the controversies selected for this study are not only discussed in various secondary accounts, but have also generated primary texts, including articles and

books by elite economists involved in the controversies and a large number of newspaper and magazine commentaries.

We identified three controversies based on an in-depth understanding of the context and history of the China's stock market development. The first controversy, hereafter referred to as “the surname controversy,” is a dispute that took place between 1990 and 1992 between conservatives and reformers about whether the stock market should be allowed to open. The second controversy, hereafter referred to as “the casino controversy,” concerned whether the stock market is like a casino and should therefore be closed. The casino controversy broke out in 2001 and highlights the disagreements between two prominent economists, both strong advocates for market reform. The third controversy, commonly known as “the dispute between Lang and Gu” (the initial disputants in the controversy), is a dispute about the practice of management buyouts (MBOs) of state-owned enterprises (SOEs) and will therefore hereafter be referred to as “the MBO controversy.” The MBO controversy occurred in 2004–2005 and marked the split between those regarded as mainstream economists and those who consider themselves to be non-mainstream.

Data Collection

For the three elite controversies over the stock market, we collected articles and books written by the economists who were the main figures in these controversies as primary sources, in order to understand their perspectives in their own words. In addition, we searched the China Academic Journals Full-text Database (CAJ) for articles that discuss these controversies.

CAJ is China's most comprehensive full-text database of Chinese journals and magazines. As of May 2013, it contained 8,460 journal titles, of which 803 belonged to the category “Economy and Management.” We used keywords to search for articles in this category related to the three controversies. For the first controversy, which is commonly known as the controversy of “socialist or capitalist surnames,” the search strings for articles contain the phrases “xingshexingzi” (surname socialism surname capitalism) and the words “stock,” “stock market,” “shareholding,” or “capital market” in the full text. For the second controversy, the search strings include key phrases “gushiduchang” (stock market casino) and “China” in the full text. For the third controversy, the search strings include either the phrase “langguzhizheng” (the dispute between Lang and Gu), or both Lang Xianping and Gu Chujun, or both Lang Xianping and Zhang Weiying, all key figures in the controversy.

We ensured the validity of the sources by evaluating whether they represented authentic and pertinent sources for the research questions. As an example, to understand the stock market field, we selected books that provided a multitude of accounts produced by a variety of authors/agencies in both Chinese and English, such as the regulatory agency CSRC, a retired director of the CSRC, economic scholars, journalists, senior managers at investment banks, and independent observers. We adopt a critical

view of these accounts, always taking into consideration the authors' motivations for telling a story in a particular way. The credibility of the sources was enhanced by searching archives for material contemporaneous with the controversies—that is, additional primary sources. In the case of the secondary accounts, given the many books on the history of China's stock market, we were careful to consult those that were produced by the most credible and authoritative authors. Our data sources are transparent in the sense they are all publicly available.

The search uncovered 6,651 articles published between 1988 and 2013. Figure 11 shows the number of articles addressing each controversy by year, and clearly shows that these controversies received wide attention from the public. For each controversy, we selected 20 articles contemporaneous with the controversy as important primary data for analyzing the public discourse at the time. Lastly, we collected books on the history of the stock market written by a variety of authors and several books that focus on large-scale controversies surrounding the market reform in China.

To make sense of the stock market institution before and after the controversies, we combed historical accounts of the stock market to identify institutional changes. Throughout the data collection process, we paid careful attention to the validity, credibility, and transparency of the sources (Kipping, Wadhvani, & Bucheli, 2014). The myriad of archival sources helped triangulate our interpretations and analysis.

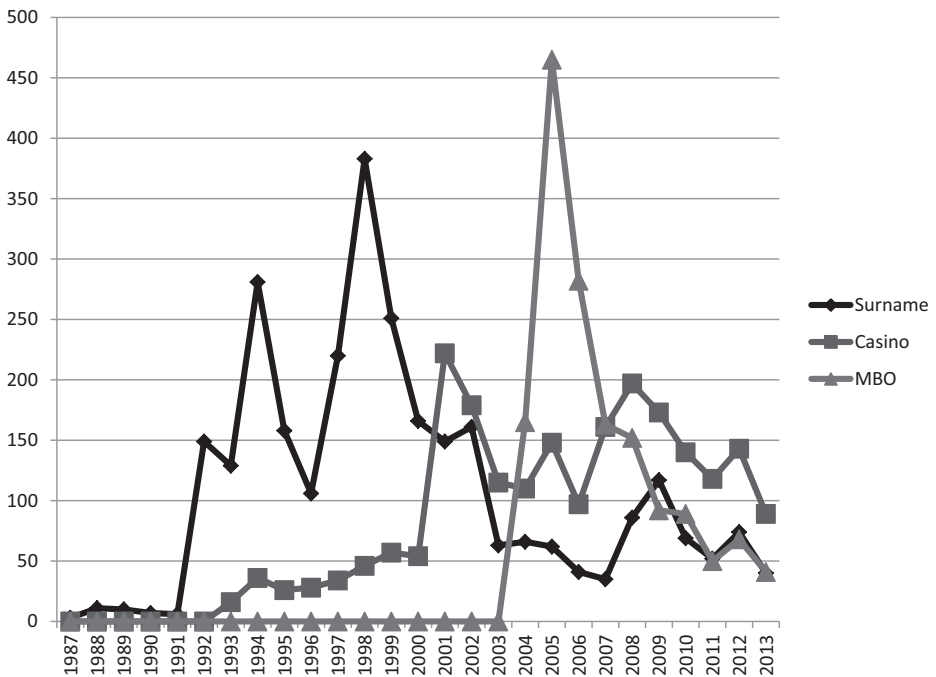


Figure 11: The Rise and Fall of Three Controversies in the History of China's Stock Market.

Data Analysis

The theoretical aim of this study is to explain the role of elite controversies in the process of institutionalization. To that end, we began the identification of elites by constructing a detailed narrative account of each controversy. These stories are more than a mere chronology of events (Langley, 1999); they are “prepared to get on top of the data, to clarify sequences across levels of analysis, suggest causal linkages between levels, and establish early analytical themes” (Pettigrew, 1990: 280). Since the indigenous Chinese context—including aspects of its culture, its political and economic systems, and its history—is central for understanding and theorizing about Chinese phenomenon (Tsui, 2006), we traced the historical dynamics of the political environment in China, paying particular attention to elite conflict and relationships between different types of elites.

The second stage compared how the controversies unfolded in terms of the discursive practices. Argumentation analysis (Perelman & Olbrechts-Tyteca, 1969; Toulmin, 1958) guided our examination of the contending parties’ arguments in the controversies. We identified the aggressor and the defender, as well as argumentative engagements by political leaders. Argumentation theory concerns “the *production, analysis, and evaluation* of argumentative discourse” in actual pragmatic contexts (van Eemeren, Grootendorst, & Henkemans, 1996: 12). Analyzing how actors take up and defend their positions in these disputes, we placed them in the context of China’s political economy and the development of its capital market. This contextual analysis led us to identify two theoretical constructs that are important for understanding the role of controversies in institutional change: contentious argumentation and presumption.

Regarding contentious argumentation, we further identified three broad categories: (1) premises relating to what is real—facts and truth; (2) premises relating to what is preferable—values and value hierarchies; and (3) premises relating to the ethos of the arguer. In all three controversies under discussion, the opponents used quantitative and qualitative data, systematic and episodic evidence, and comparisons between China and other countries to make claims about specific arrangements and practices of China’s stock market. These opposing standpoints were summarized in journalists’ reports in newspapers and magazines, sometimes along with their own interpretations. The voices of the common people also entered the debate: they wrote to the newspapers and magazines directly and, in the case of the second and third controversies, the viewpoints they expressed on the Internet were reprinted in traditional media. As the arguments expanded, the opponents often broadened the scope and generalizability of their criticisms, escalating the conflicts between the camps. They created simplified slogans for their opponents’ arguments and sought to connect them to values that are undesirable and subordinate to the values that they upheld. Moreover, the debates often went beyond the logos of the arguments and involved problematizing the motives, character, credibility, and reputation of the opponents. Regarding presumption, we relied on evidence from the power holders and their ideo-

logical orientation, secondary accounts of the political climate and policy orientation, and from contemporaneous articles on public opinion and responses by authoritative elites to gauge which side has the initial presumption and its shift.

The final stage of our analysis examined the changes in the stock market after the controversies. It connects changes in presumptions with changes in rules and understandings of the stock market institution. Historical analysis in sociology requires the analyst to “study sequences of conditions, actions, and effects that have happened in natural settings, in sufficient detail to get signs of sequences that are causally connected” (Stinchcombe, 2005: 5). Following this insight, we concentrated our efforts on enhancing the temporal details of the processes and sequences, paying careful attention to actors’ political actions and interactions at key moments of history. The effort to study institutionalization involves “periodization”—that is, organizing history into temporal and spatial segments with contextual constancy across periods and contextual variations between periods (Clemens, 1999). Periodization is especially fruitful when guided by conceiving the institutional changes as a set of linked solutions to a problem (Clemens, 1999; Schneiberg & Clemens, 2006). This strategy helped us highlight variations in the effects of controversies while pointing out the similarities. Throughout the analysis, our intention was to make both a contribution *of* theory, by applying existing organization theories to a new context, as well as a contribution *to* theory, specifically institutional theory and elite theory, by developing theoretical insights that have greater explanatory power by virtue of being informed by this new phenomenon (Whetten, 2009).

The Context: China’s Elite Politics and Dominant Political Thoughts

Many observers characterize China’s political system as an authoritarian one-party-rule regime. However, the Chinese Communist Party (CCP) has never been a monolithic authority, and it is rife with internal conflicts (Huang, 2000; Pye, 1981; Shih, 2008). China specialists observe that elite politics are central to China’s recent transition (Fewsmith, 1999) and, more specifically, that factional conflicts are central for understanding how Chinese leaders organize themselves and mobilize resources to engage in conflicts and set the rules of the game (Nathan, 1973; Nathan & Tsai, 1995). Viewed in light of elite politics, debates and controversies have political significance, because the terminologies and vocabularies in the debates are metaphors that encapsulate very different perceptions of the reform (Fewsmith, 1999: 62). Economists and economic bureaucrats subscribing to different schools of thought argued both publicly and privately, interpreting economic reality and offering cognitive maps for leadership. Their discourses constitute streams of ongoing debates and dialogues that contribute to the policymaking process and are an integral part of China’s political process (Fewsmith, 1994).

Three political schools of thought have gained prominence, at times clashing with each other, in China's reform era. These are commonly labeled as the "Old Left," the "liberals," and the "New Left" in discussions of the dominant intellectual schools of thought in China (Ma, 2012). The Old Left consists of adherents to Mao Zedong's political thoughts, intellectuals and political leaders who uphold class struggle as the principle of the party and who insist on public ownership and planned economy as essential to China's economic system. The liberals are reformers who find an affinity with Western liberal thinkers, often tracing their roots to John Locke, Adam Smith, and Friedrich Hayek. Liberals embrace personal freedom, a market economy, and private ownership, and are thus often subject to ideological attacks by the Old Left who characterize them as rightists and bourgeoisie engaged in spiritual pollution. The Old Left and the liberals were often discussed as the conservatives and the reformers in the 1980s and the early 1990s. The New Left emerged in the 1990s and gained prominence in the early 2000s. The New Left is at home with contemporary Western left-wing intellectuals such as American leftist critics, the British New Left, and the Frankfurt School. The Chinese New Left is highly critical of globalization, capitalism, and market fetishism, and instead favors social fairness and participatory politics (Li, 2010; Ma, 2012).

The relationship between authoritative elites and expert elites is one of mutual dependence. Post-Mao intellectuals, like their predecessor Confucian literati, act as advisors and spokespersons for the political authority, and have occupied command posts in government, academia, the media, and the cultural sphere (Goldman, 1999). They often assume the leadership in policymaking institutes, think tanks, and professional associations, and they serve as links between the party and society (Goldman, 1999). They vie for the attention of political authorities by making sense of economic trends and offering new ideas, and many institutes and think tanks are under the auspices of political patrons. Conversely, political authorities rely on intellectuals for new ideas, which are particularly important in times of radical change and uncertainty (Chen, 1995). Moreover, political authorities use public debates and controversies to mobilize their factional support and test the strengths of their networks (Pye, 1981). For example, in the aftermath of the Cultural Revolution, Deng Xiaoping did not simply use backroom political maneuvers to replace Hua Guofeng, the Mao-anointed heir; he mobilized think tanks and the media to publicly champion a different ideological vision before officially dethroning Hua (Fewsmith, 1999). Because conservatives control the organs of the CCP most responsible for CCP rule, such as the State Planning Commission and the Propaganda Department, reform-minded political leaders have often cultivated their own intellectual networks and think tanks (Fewsmith, 1999). The alliances between authoritative and expert elites are forged not only through formal organizational ties, but also by informal intellectual and political networks woven together through shared political views and values (Goldman & Gu, 2004). In the following sections, we analyze three controversies between Chinese economists regarding the stock market. Table 7 identifies elites and their institutional command posts in these controversies.

Table 7: Elites and Their Command Posts in the Controversies.

	The Surname Controversy	The Casino Controversy	The MBO Controversy
Political Orientations of the Opposing Camps	Old Left vs. Liberals	Keynesians vs. Free Market liberals	New Left vs. Liberals
Intellectual/ Expert Elites: Representatives and Their Command Posts	<p>Old Left* Gao Di: Head, <i>People's Daily</i>, 1989–1992; Member, Central Committee of the CCP (around 200 members, the top in power in the CCP); Vice Principal, Party School of the Central Committee of the CCP; Member, Standing Committee of the Chinese People's Political Consultative Conference (the official political institution of multiparty representations) Wu Shuqing: President, Beijing University, 1989–1996; Member, Finance and Economic Committee of the National People's Congress (the legislative branch of the government)</p> <p>Liberals Wu Jinglian: Researcher, Chinese Academy of Social Sciences (CASS); Advisor, Development Research Center of the State Council (the executive branch of the government); Vice Director, Economic Committee of the National Committee of the Chinese People's Political Consultative Conference; Chief Editor, <i>Reform</i> (a flagship magazine on China's reform)</p>	<p>Keynesians* Wu Jinglian (same as previous)</p> <p>Free Market Liberals Li Yining (same as previous) Dong Furen: Director of the Economics Institute, Chinese Academy of Social Sciences; Vice Director, Finance and Economic Committee of the National People's Congress; Vice Director, Economic Committee of the National Committee of the Chinese People's Political Consultative Conference</p>	<p>New Left* Lang Xianping: Chaired professor, Chinese University of Hong Kong</p> <p>Liberals Zhang Weiyong: Professor and Dean, Beijing University Wu Jinglian (same as previous)</p>

Table 7 (continued)

	The Surname Controversy	The Casino Controversy	The MBO Controversy
	<p>Li Yining: Professor and Dean, Beijing University; Vice Director, Finance and Economic Committee of the National People's Congress; Vice Director, Economic Committee of the National Committee of the Chinese People's Political Consultative Conference</p>		
Authoritative Elites: Representatives and Their Command Posts	<p>Deng Xiaoping: 1st in power despite not holding a formal position; supporter of economic reform</p> <p>Old Left Most Party Elders** Chen Yun: 2nd in power after Deng Xiaoping in 1980s Yao Yilin: Vice Premier in charge of economy, 1979–1993 Deng Liqun: Propaganda chief in the 1980s Wang Renzhi: Head of CCP Propaganda, 1987–1992</p> <p>Liberal Reformers Zhu Rongji: Vice Premier, 1989–1998</p>	<p>Jiang Zemin: General Secretary of the CCP, 1989–2002, 1st in power; turned from conservative to pro-business and pro-market</p> <p>Liberal Reformers Zhu Rongji: Premier, 1998–2003</p>	<p>Jiang Zemin: continued to be the 1st in power in the military until September 2004</p> <p>New Left Hu Jintao: General Secretary of the CCP, 2002–2012 Wen Jiabao: Premier, 2002–2012</p>
Allocative Elites: Representatives and Their Command Posts	Not Clear	<p>SOEs Most listed companies Financial intermediaries Institutional investors</p>	<p>SOEs Most listed companies Financial intermediaries Institutional investors</p> <p>Private Businesses Gu Chujun: President and controlling shareholder of Greencool</p>

Assignments of political orientations of representatives in these controversies are based on scholarly work by both Western academics such as (Fewsmith, 2008; Oi, 2010) and Chinese intellectuals such as (Ma, 2012)

*The group is the aggressor in the controversy

**The “Eight Party Elders” are revolutionary veterans who do not occupy formal positions in the state but hold power over top leaders in the party and the government. The majority of the eight elders are conservative in ideological orientation

The Three Controversies and the Institutional Development of the Stock Market

The Surname Controversy: Should the Stock Market be Allowed to Open?

The opening of the stock market. Emergent, market-based grassroots efforts as well as deliberative, control-minded government' strategies propelled the opening of China's stock market. Since early 1980s, "township and village enterprises" (TVEs) took the initial risks to raise capital by issuing shares (Green, 2003). Small- and medium-sized SOEs followed suit. As part of market reform, local governments took over the control and cash flow rights of the vast majority of these SOEs in the early 1980s, and they sought more aggressive sources of investment capital than fiscal grants and bank loans (Xia, Lin, & Grub, 1992). Local governments, especially Shanghai and Shenzhen, became experimental sites for shareholding companies and public share issuances. Records show that the public issuance of shares by companies took place as early as 1980 (Li, 2001). By 1989, as many as 10,000 companies had issued shares (Economist, 1989).

The central government adopted stock market out of several concerns. First, the central government's budget deficit prompted it to seek alternative ways of raising capital for SOEs (Gordon & Li, 2003; Wong, 2006). Second, the proliferation of securities issues stimulated the formalization of a secondary market, which indicates a public need for liquidity (Ma, 2004). The Shanghai Branch of the People's Bank of China (PBOC) established an OTC market in 1986 to act as an intermediary agency for securities transactions between willing buyers and sellers. Fearing that the "share fever" of the public had gotten out of control and attempting to contain the frenetic black market activities, the State Council approved Shanghai's request to establish a formal security exchange (Walter & Howei, 2006).

The Shanghai and Shenzhen stock exchanges opened for trading in December 1990. Zhu Rongji, who assumed the position of the Shanghai Party Secretary and Mayor in late 1989, was the chief advocate for establishing the Shanghai stock exchange. Given the political climate, senior officials in Shanghai thought the stock market idea was politically dangerous (Li, 2001). The Shanghai PBOC governor presented Zhu with four objections: issuing shares could lead to the privatization of SOEs; it could reduce bank deposits from individuals and harm the banking system; trading would lead to speculation and social unrest; and the stock market could end up creating a new class of capitalists (Walter & Howei, 2006). Zhu nevertheless went ahead and persuaded the central government to approve the proposal. For the first year, the two stock exchanges combined had only six listed companies. The listed companies were collective enterprises, which were regarded as second-class enterprises to SOEs in the central planning system. SOEs, concerned about political risks, were yet to become active in IPOs in the newly established stock exchanges. Trading volume was extremely low. The public was deeply suspicious of the new market, and investors would not invest before the authori-

ties sent a clear signal about its prospects (Green, 2003). The conservative political climate dominated by the Old Left partially explains the dormancy.

Old Left as the dominant political thought. During the 1980s, reform leaders backed by Deng Xiaoping implemented liberal measures that fostered the growth of a market outside of the central planning system (Naughton, 1995). However, high inflation coupled with social turmoil in the late 1980s brought down the liberal regime. The 1989 Tiananmen movement, a society-wide crisis that began with pro-Western intellectual elites and student activists ended with government-ordered military intervention (Zhao, 2001). Its ending represents the downfall of the liberal regime that had experienced vital growth in the 1980s and a significant rollback of economic reform by the hardline faction occupying the most important command posts in the political and intellectual fields (Fewsmith, 1993; Naughton, 1995). The period 1989–1992 is often referred to by Western scholars as the *retrenchment period* (Naughton, 1995); however, at the time, many Western media concluded that China’s reform had come to an end. With the most vocal pro-Western intellectuals seeking refuge overseas and the Old Leftists now in charge of propaganda, media, and higher education, the liberal discourse that permeated the society in the 1980s was largely suppressed (Fewsmith, 2008). The conservative leader Chen Yun’s economic thought was restored as the guiding principle for China’s economy, and the head of the Propaganda Department, Wang Renzhi, initiated a new round of attack on bourgeois liberalization, with an eye to curtailing the authority of Deng Xiaoping and negating the liberal economic policies of the previous era (Fewsmith, 1993). Ideological tensions between the elites deepened, and the Old Left started to use the language of pre-reform eras to describe intra-party conflicts as “line struggles,” of which bourgeois liberalization was capitalist in nature (Fewsmith, 1993).

The controversy between Old Leftists and Liberals. Given that key CCP and government positions were occupied by cadres with leftist ideological orientation, the Old Left had the ideological upper hand during the 1989–1991 period of retrenchment (Fewsmith, 2008). This gives the Old Left the presumption, which means that the Old Left does not need to prove their claim that the stock market is a quintessential capitalist institution and is contradictory to China’s socialist ideology and Marxist beliefs. The Old Left nonetheless acted as the aggressor and initiated the attack. The general thrust of the attacks includes: labelling market practices as capitalist; warning the danger of pro-market thoughts as bourgeois liberalization that destroys socialist spiritual civilization; interpreting the social turmoil in China and the subsequent collapse of communist regimes in the Soviet Bloc countries as evidence of the danger of the West to “peacefully transform” China into a capitalist society; and attacking liberals as allies with the West. Table 8 provides some of the points of departure in the surname controversy.

In January 1990, months before the official opening of the stock market, *Qiushi* (*Seeking the Truth*), the flagship magazine of the CCP, published Premier Li Peng’s closing speech at the annual CCP meeting on the economy. Li announced that strict austerity programs would guide the economy for several years. In a brief mention of

Table 8: Contentious Argumentation in the Surname Controversy.

	Old Left	Liberals
Points of departure		
Central message	The surname of the stock market is Mr. Capitalism. The stock market fundamentally contradicts China’s Marxist principles and should not be adopted.	The surname of the stock market is not Mr. Capitalism. It is consistent with China’s ideology and beneficial to the reform. It should be adopted.
Premises relating to facts	The shareholding form creates property that is privately owned. The private nature of these companies determines that resources would be allocated by capital returns, not by labor inputs. Allocation by capital returns is deemed a capitalist practice, and therefore not conducive to China’s socialist modernization.	The surname of the shareholding form is not “capitalism” but “commodity.” The shareholding form can take care of the interests of many stakeholders and protect the interests of the shareholders. When employees see that they are the owners of their enterprise, they will be more motivated to take care of the enterprise.
	The shareholding system is a historical retreat from the socialist public ownership system.	The shareholding system is a new foundation for socialist enterprise.
	The shareholding form breaks up the public ownership of SOEs into diverse ownership types. This will not only cause problems in economic calculation, but will also lead to political and administrative chaos.	The shareholding form can help separate the ownership right from the operational right, so that enterprises have more autonomy.
	Turning SOEs into a shareholding system does not necessarily lead to efficiency and productivity.	Managers can use the stock market as a direct way to raise capital, thus lowering the cost of capital, increasing the mobility of capital, and helping clarify ownership rights.
Premises relating to values	Socialism cannot allow people to use monetary capital to speculate in a capital market and cannot allow the existence of a social class that, like parasites, makes a living from stock dividends.	Stocks are to investors like daughters and sons who will get married and move out. Therefore, it is not enough to have the primary market; we must also have the secondary market. The life of stocks is in their trading. The benefits of trading stocks outweigh the costs, and trading will not cause large speculations.
	The class nature of the stock markets is capitalist.	The stock markets are an institution and a way to organize, and therefore do not have a class nature.
Premises relating to arguers’ ethos	The liberals intend to ally with the West to turn China into a capitalist society through “peaceful evolution.”	We should guard against the Old Left because it ruined China in the past and is against the reform.

stock issuance, Li cautioned that it would cause an imbalance in capital planning and could even lead to inflation if it was not centrally planned by the government. In May 1990, an article published in *Qiushi* argued that it was still necessary to question the surnames of reform practices, and in August, another article published in *Qiushi* claimed that failing to question the surnames would blur the socialist direction of the country (Yang, 1998). In December 1990, Gao Di, the head of the *People's Daily*, published an article in his newspaper entitled "Socialism Will Definitely Replace Capitalism," stressing the exploitative nature of capitalism and predicting its inevitable demise. Wu Shuqing, a conservative economist and President of Beijing University from 1989 to 1996, argued that the issuance of shares by enterprises would stir a sense of inequality in society, foment an opportunistic mentality, and open avenues for abuse and malpractice. In the meantime, hundreds of newspapers and magazines published articles that accuse the stock market to be capitalist and therefore should not be allowed to open.

The counterattack by the liberals started with the publication of four editorials in *Liberation Daily*, an influential daily newspaper owned by the CCP's Shanghai Municipal Party Committee, over a period of two months in early 1991. These editorials advocated further reform, which was extremely shocking to the public. The pen name used in these editorials later became a symbol of the voice of market reform. Historical accounts reveal that three individuals penned these articles: the party secretary (first-hand man of the government or a government agency) of the newspaper publisher, the director of the newspaper's opinions department, and the director of the policy research department (akin to a think tank) of the Shanghai Municipal Party Committee. All three were elites in the field of the party propaganda in Shanghai. They decided to write the first editorial when the policy researcher shared a transcript of speeches by Zhu Rongji at a local party branch meeting. At the meeting, Zhu briefed the members of the party branch on Deng Xiaoping's recent speeches during a winter vacation in Shanghai. Earlier, in November 1989, Deng had withdrawn from his last formal position as the chairman of the Central Military Commission of the Central Committee of the CCP, arguably the most powerful position in China's ruling apparatus. Hence Deng's speeches in Shanghai were not publicized in the same way as speech by top party leaders in formal command posts. Instead, Deng's ideas, which essentially argued for more market-based reforms, were disseminated within the party organization through routine party branch meetings. The meeting in which Zhu disseminated Deng's ideas is referred to as "blowing the air" in the CCP vocabulary, indicating the testing of new ideas within the party organization. There are no historical accounts indicating whether the Shanghai party newspaper's publication of these editorials that espoused Deng's ideas without mentioning him was on the advice of Zhu Rongji or whether it comprised the initiatives of the three individuals behind the pen name. Later, the public generally assumed that Zhu was behind the editorials.

In this episode, Deng, Zhu, and the three Shanghai party members all took political risks in a climate dominated by the Old Left. Deng understood that using his informal visits to criticize the leftist trend in the party was risky. He said, “There is a reason to be worried. But I want to take the risk. Without taking risks, nothing is done, nothing can be done” (Yang, 1998: 515). When Zhu decided to ask for the central government’s permission to establish a stock exchange, he told his team that he would take the political responsibility if things went wrong (Li, 2001). The researcher and editors at the Shanghai newspaper ran the risk of being criticized, even demoted, if their “opinions” did not accord with the “party line” (Zhao, 2008). Such risky actions, however, can be worthwhile if they successfully change the climate. Deng was credited with playing the decisive role in reversing China’s course (Vogel, 2011), Zhu was promoted to head the central government as the Vice Premier, and the individuals behind the editorials were promoted to jobs in newspapers and research centers at the national level (Ma, 2008).

The Old Left fought back with innovative political actions. For example, a top-ranking political leader made an official visit to Shanghai and, in a speech to party cadres, openly criticized the Shanghai editorials for a bad influence that damaged the hard-earned consensus of the entire party (Ma, 2008). In response to the Shanghai editorials, the director of the *People’s Daily*, the most authoritative daily newspaper owned by the party’s central committee, secretly made a personal trip to Shanghai to investigate who was behind the editorials, rather than requesting the information through formal channels (Yang, 1998). The upper echelons of the party exerted pressure on liberals by criticizing liberal-minded journalists within the party organizations (Yang, 1998).

Heightened uncertainty was manifest in a rare episode of the party-controlled media. On September 1, 1991, China’s Central Television (CCTV) news presented an important editorial that would appear in the *People’s Daily* the next day. It is routine for CCTV to televise this kind of editorial, yet the fact that the version that appeared in the newspaper the next day would be different was an extremely rare event: it did not contain a sentence that said “we should question the surnames.” It turns out that the director of the *People’s Daily* had included this sentence, but Jiang Zemin ordered it dropped after he listened to the CCTV news (Ma, 2008). The Western media used this episode to speculate that there were two voices in the CCP Central Committee (Yang, 1998). This meticulous attention to specific words by the top party leadership was interpreted by the Chinese media as an indicator of the murky and uncertain political situation of the time (Ma, 2008).

Although the Old Left has the presumption, the liberal reformers sought to occupy the “ground” by arguing that what they advocated are not capitalist but socialist practices and institutions. The liberal economists had been instrumental in articulating rationales for the economic reform. As early as the 1960s, renowned economist Sun Yefang advocated for the use of the price mechanism (Yang, 1998). Wu Jinglian and Li Yining were actively pushing for the adoption of market mechanisms and the shareholding form in the 1980s as young economists. Facing the 1989 political turmoil,

the liberals had to refute the leftist argument that market reform led to political crisis. They argued instead that the problem was that market reform was incomplete and lacked determination. In contrast to the planners' idea that market adjustment should be undertaken within the framework of the planned economy, liberal economists advocated for a more independent role of the market economy (Naughton, 1995). However, they carefully crafted their arguments so that these would not be labeled as capitalist. For example, Gong Yuzhi, Deputy Director of the Theoretical Research Department of the Central Committee of the CCP, argued that China's reform was "socialist public ownership reformed by markets," not "privatization" or a "market economy of the West" (Yao, 1998). Dong Furen, director of the Economics Institute at the CASS and then a deputy director of the Finance and Economics Committee of the National People's Congress, interpreted China's economic system to mean a market economy under the guidance and regulation of the state (Dong, 2002). Xue Muqiao, a renowned economist who was one of the key figures in China's planned economy stage, wrote a formal letter to the politburo in 1990 and published a series of articles to put forth strong and comprehensive arguments for establishing a market economy, including the stock market. His theory framed the market as an economic means that could be employed by socialist countries for socialist ends (Xue, 1996).

The settling of presumption. From the perspective of argumentation, neither side of the controversy could persuade the other based on the logic and strength of its arguments. At this point, the political authority's response was critical since there was no remaining means of persuasion other than the opinions of the authoritative elites. Deng Xiaoping, the retired "reform architect" tried to send signals to Jiang Zemin, the general secretary of the CCP. In the spring of 1992, Deng Xiaoping took a tour to the Guangdong province, which later became the widely known symbolic event "Deng's Southern Tour." Deng personally asked Guangdong not to hold meetings or meet the media during the trip, but the Guangdong officials negotiated to obtain the right to video record his visits. The deputy editor of the newspaper Shenzhen Special Zone followed the visit and published a news story that contained many of Deng's words. The article was quickly reprinted by major newspapers. Liberal intellectuals organized conferences to support Deng's speeches, and numerous articles appeared in the media to express their pro-market reform standpoints. In March, the Politburo of the CCP Central Committee held meetings to study Deng's speeches and reached a consensus to carry out Deng's vision. In June 1992, the general party secretary Jiang Zemin gave a speech to the Party School in which he boldly announced that he preferred the term "socialist market economy" to define China's economic system. Jiang's embrace of "market economy" in 1992 was widely regarded as a signal to a much deeper commitment to market reform. These ideas were then formally incorporated into the 14th Party Congress Report in October 1992.

It is worth noting that even Deng Xiaoping did not outright refute the Old Left presumption. Rather, he expressed his distaste for debate:

Do not debate. This is our invention. The reason of not debating is to strive for the time to act. Once there is debate things become complicated, and time is lost, hence nothing can be done. No debates, experiment boldly, and make breakthroughs boldly. (Deng, 1993, p. 374)

Deng also did not argue that the stock market must be socialist and therefore should be allowed to open. Rather, he framed the stock market as an experiment:

As for securities and the stock market, are they finally good or bad? Are they dangerous? Are they things that only capitalism can have or can socialism also make use of them? We should allow them to be seen. But we should definitely try them out. If we see they are correct, manage them correctly, we then open them up; if we see they are incorrect, we make corrections and close them. If we close them, we can close them either quickly, or slowly, or leave a tail. (Deng, 1993, p. 373)

Deng's response was strategic. He knew very well that the liberals were at a disadvantage and would probably lose if the debate continued. Deng's proposal that the debate should be set aside and that the experiment should be allowed until proven wrong subtly shifted the presumption to the side of the liberals. His argument that debate was an impediment to progress affirmed his positive attitude towards change. On the surface, Deng's response to the controversy seemed to grant a tie to the opposing sides, but it effectively shifted the political climate from the conservative Old Left to a liberal climate (Fewsmith, 2008; Yang, 1998).

Policy choices: a hybrid institutional design. As the founding controversy, the debate on whether the stock market is capitalist or socialist in nature had important consequences for the initial institutional configuration of China's stock market. Although Deng's response effectively granted the liberals permission to continue the stock market experiment, it did not mean that the liberals won full control of the design of the new institution. In fact, the concerns of the Old Left shaped the design of the market institution in important ways, and the stock market and the shareholding system bore significant socialist imprints. The resulting stock market institution is a hybrid of socialist and capitalist practices. Central control and planning measures were put in place in the core activities of the stock market. For example, the state devised quota systems to control the supply of shares through setting limits on the amount of capital to be raised through IPOs or number of companies to be listed (Walter & Howei, 2006; Wong, 2006). Regulations were also in place to restrict the sources of funds to be invested in the market. Regulators selected qualified issuers and determined the offering prices and P/E ratios regardless of the industries (Yao, 1998). The state also devised a segmented share structure, that is, only 25%-30% of the total shares of SOEs can be publicly traded on stock exchanges whereas the majority of shares are designated state or legal person shares and are non-tradable (Green, 2003; Walter & Howei, 2006). These socialist stock market imprints reflect the balance of

power between the conflicting views of the two sides of the surname controversy and the inability of either side to win the debate. The question of the moral illegitimacy of the stock market lingered, which explains why most of the first issuers were not large, centrally controlled SOEs. Chinese society would not be comfortable with having flagship SOEs on the stock market for another several years.

The Casino Controversy: Is China's Stock Market Worse than a Casino?

Meteoric growth from 1990 to 2000. The first ten years of China's stock market saw dramatic changes in a decade-long bull market. The number of listed companies went from a dozen to more than a thousand. The total stock market capitalization grew to become the second largest in Asia, after Japan (Wong, 2006). Compared to many stock markets in transition economies that were plagued by low market capitalization and low liquidity, China's market performed better in almost all measures of stock market performance, including the number of listed companies, market capitalization, liquidity, and fundraising capacity (Pistor & Xu, 2005).

The regulatory framework also changed dramatically. For the most part of the first ten years, the Shanghai and Shenzhen municipal governments enjoyed extensive power in regulating the stock market, controlling the stock exchanges, and nominating and selecting SOEs to restructure and list. Local governments had strong incentives for growing the stock market and listing their most financially troubled SOEs, but poor incentives to regulate the market, which led to several crises and scandals. In response, the central government pushed for the unification and centralization of regulatory power (Green, 2004). The central government established China Securities Regulatory Commission (CSRC) in late 1992 as the regulator, and placed CSRC under the guidance of the State Council Securities Commission (SCSC) of which Zhu Rongji was personally in charge. Initially, the CSRC lacked authority. Other agencies, such as the People's Bank of China (the central bank) and the State Planning Commission had more regulatory control over the stock market. It was not until 1997 when the Asian financial crisis struck, that the central government reached a consensus and effectively consolidated power into the CSRC. In 1998, the CSRC was merged with SCSC and elevated to the rank directly under the State Council. The new CSRC became the powerful regulator with Zhou Zhengqing, an ally of Zhu Rongji, as its chairman.

Chinese leaders' perception of the stock market was also changing (Green, 2003). In the beginning, the leaders considered the stock market to be a quasi-legitimate experiment that could fail. By the end of the century, they seized on the idea that the stock market could be a viable fundraising vehicle for SOEs (Green, 2003), and the years 1997–1999 are commonly referred to as the “three years for saving SOEs from predicaments.” Under this policy, large SOEs began to list their shares on the stock market. The IPO rate reached a historical peak. Government leaders recognized the importance of institutional investors in a stock market, and thus the fund industry

was established in 1998. Leaders began to formalize the stock market by promulgating the Securities Law in 1999. As a result, legal cases against listed companies began to pick up.

Along with phenomenal growth, some serious problems emerged, the most prevalent being stock market manipulation and speculation (Wong, 2006). As most listed companies were SOEs, the government had a real interest in the market and was motivated to directly influence it. This institutional environment fostered stock price manipulation, with SOEs and institutional investors being the main manipulators. Market manipulation by SOEs may have been implicitly permitted by some political institutions under the belief that the state had a responsibility to lend a “helping hand” to SOEs and that high stock turnover rates result in more revenue for the local governments that host the stock exchanges (Green, 2004). Excessive manipulation and speculation led to high volatilities and turnover rates (Ma, 2004). An implicit consensus among individual investors was that the only way to make money in the market was to follow the manipulators. It was, of course, not easy to follow them. In fact, the manipulators often pulled out of the market with all the gains, leaving individual investors trapped.

The regime of Jiang Zemin and Zhu Rongji made significant progress in market reform. Jiang advocated for recruiting private entrepreneurs into the CCP in his new theory of “Three Represents” in the early 2000s. As a capable reformer, Zhu Rongji combined building market institutions with strong administrative control (Brahm, 2002). Zhu’s political thought was importantly shaped by liberalism. But Zhu still had to face the problem of poor-performing SOEs and deal with the political agenda of the Old Left whose policy heavily favored listing SOEs. Many SOEs listed on the stock market became the nexus where political power and economic interests interconnected and therefore powerful manipulators of the stock market. CSRC’s official newspaper, *China Securities Daily*, reported in 2001 that 172 listed companies had given securities companies a total of RMB21.7 billion to be managed on a guaranteed-return basis (Walter, 2011). As a reformer, Zhu attempted to battle the interest groups by launching attacks in the *People’s Daily*, such as a “Special Guest Commentary” in 1996 that accused SOEs of manipulating stocks (Walter, 2011). However, the stock market had been characterized by one bubble after another. There was a sense that the stock market had become a gambling game designed to secure household money to save the failing SOEs, a way for the privileged to suck other people’s money into their own pockets by promising a chance of winning a small part of this game.

Division among Liberals. The end of the surname controversy saw a resurgence of liberal thought and a decade of rapid economic development, which was regarded by Western scholars as the Deng Xiaoping era (Vogel, 2011). The discourse of reform prevailed in the field of elites. The top political leadership justified ostensibly pro-market and pro-business practices (Fewsmith, 2008), and intellectuals who advocated a liberal, market economy faced no real challenge from the Old Left. The Old Leftist discourse had been largely subdued in this decade, represented by the shutdown of

some far-left magazines and the dominance of pro-market discourse in the public sphere. The change in the incumbent–challenger power relations in the broad environment was accompanied by the fragmentation of the new incumbents, i.e., those who advocated for market reform. While the first controversy took place in a socio-political environment with “unorganized interests” (Zhou, 1993), coalitions of interests had now emerged and were starting to become organized (Ma, 2008). Contention over regulating the stock market and profiting from it mainly took place along several dimensions, including contention between the central government and local governments (Green, 2004) and between the various power centers such as sectors and ministries in the central government (Wang, 2011).

The controversy between Keynesian and free market liberals. It is worth noting that by the time of the casino controversy, the stock market had gained legitimacy, and the question about whether its surname is capitalist was no longer lingering in the mind of stock market participants. A prominent economist wrote that 1996 marked a turning point in the people’s acceptance of the stock market as legitimate and worthy of rapid development, in support of SOE reform (Dong, 2002).

The casino controversy between Wu Jinglian, commonly regarded as “Wu Market” for his advocacy for market principles, and Li Yining, commonly regarded as “Li Shares” for his commitment to the shareholding reform, represents an important moment of breach in a coalition of intellectuals or expert elites who were united in their battle against the Old Left in the first controversy. The legitimacy test in this controversy concerns the rampant manipulation and speculative behaviors of stock market participants, i.e., SOEs, banks, mutual funds, and business media. One side of the controversy see these as illegitimate and call for their elimination, and the other side of the controversy see these as natural and tolerable given that the stock market is new and developing. Table 9 provide some of the points of departure in the surname controversy.

Wu and Li were both central figures who had acquired national reputations for advocating market reform in the 1980s and 1990s. They had different perspectives on the best reform strategies within the economics field in the 1980s, with Wu preferring price reform and Li in favor of enterprise reform (Naughton, 1995). In the 1980s, the disagreements between these two camps were marginal compared to their common grounds, which was the desirability of a market economy (Naughton, 1995). The casino debate revealed deeper division between the two camps. Wu, the initial attacker, perceived a danger coming from other liberal intellectuals who joined the coalition of interest groups that took advantage of the absence of rules and laws to engage in rent-seeking through manipulation and speculation (Wu, 2001). Wu prefers building a market institution with strong regulatory regimes. In contrast, Li advocates a more laissez-faire approach to market development.

Table 9: Contentious Argumentation in the Casino Controversy.

	Keynesian liberals	Laissez-faire liberals
Points of departure		
Central message	The stock market is worse than a casino. The powerful players in the market take advantage of the lack of rules and regulations and this leads China to crony capitalism.	The stock market is young and healthy. The problems are normal phenomena associated with a new market.
Premises relating to facts	China's stock market lacks rules and regulations, which fosters fraudulent behaviors.	Too many rules in a young market stifle its development. The rules are conducive to its very survival in times of transition.
	China's stock market is a zero-sum game where one's gains depend on others' losses.	China's stock market has created value that benefits all.
	Too many individual investors follow the "dealers" to "stir-fry stocks"—speculation is rampant.	The participation of individual investors is not enough. Some speculation in the stock market is normal.
	Speculation leads to economic bubbles and is detrimental to the stock market.	There is no great difference between investing and speculating. There would be no markets if there were no speculation or bubbles.
	The "dealers" as manipulators can directly or indirectly hand over the risk of speculation to the government: if the speculation is successful the dealers gain, but if the speculation goes badly the state foots the bill.	The "dealers" are similar to the "market maker" in Western stock markets. Their role is instrumental in maintaining liquidity.
	The Price-to-Equity ratio of Chinese stocks is too high and abnormal compared to that of other stock markets.	The Price-to-Equity ratio is definitely reasonable if Chinese stocks are compared to Japan's and those of some other stock markets. It is inadequate to make simplistic comparisons across countries.
Premises relating to values	The government should not intervene to "save" a bear market. The government should correct its own behaviors and establish and enforce regulations to clean up the wrongdoings of the manipulators and speculators.	The government should intervene to "save" a bear market. A prolonged bear market is harmful to the confidence of individual investors and hinders the development of the market. It is the responsibility of the government to maintain confidence in the market and the society.

Table 9 (continued)

	Keynesian liberals	Laissez-faire liberals
	The nature of the casino-like stock market is that the properties of the population as a whole are used to subsidize the “dealers.” It is not a modern economy government by the “rule of law” and is therefore fundamentally unfair and unjust.	It is inappropriate to attack a young and developing market with such scathing and extreme remarks without considering the potential consequences: they can lead to shutting down the market, which would harm investors and delay market reform, a result that only those who favor the planned economy would like to see.
Premises relating to arguers’ ethos	Wu is acting as the conscience of the people, speaking on behalf of protecting people’s interests.	Wu is irresponsible to the interests of individual investors.
	Wu’s criticisms of the government are intended to prevent China from moving into crony capitalism. Wu is a public intellectual who tells the truth and holds the government accountable.	What Wu describes are surface phenomena; Wu fails to appreciate the strategic steps the government is taking to ensure the healthy development of the market.
	Those who attack Wu have material interests in the stock market and have become the spokespersons for interest groups.	Wu’s weakness is that he is in favor of the real economy rather than the financial economy.

The “casino” controversy was triggered by a report published in October 2000 by *Caijing* (*Finance and Economics*), a commercial-based magazine devoted to China’s economic reform. The report, entitled *The Black Curtain of the Funds*, questioned the practices of the fund industry and revealed many of the techniques that mutual funds employed to manipulate stock prices. The fund industry struck back with a public statement accusing the report of being inaccurate, unscientific, and seriously distorted. However, individual investors echoed the arguments voiced in the report and expressed sharp criticisms of the fund industry.

A popular show on China Central Television (CCTV), “Economic Half-an-hour,” broadcasted its interviews with Wu Jinglian on January 14, 2001. Wu appeared on another CCTV show on January 13. In these shows, Wu supported the *Caijing* report and criticized the stock market as worse than a casino. Wu noted that the stock market had lacked adequate rules and standards from the very beginning and criticized the rampant speculation as unhealthy and destructive. He warned that if this were to continue, it would not be a safe place for investment. He pointed to “intermediary agencies, insiders of listed companies, and banks and other capital providers” as the manipulators and speculators and explained how they did these acts. Wu’s criticisms immediately sent the stock index on a downward spiral, and the idea that “a word

from Wu Jinglian ruined the stock market” became popular. The first response came from *Securities Market Weekly*, a highly influential magazine in securities markets, which published an article titled “Nine Questions for Wu Jinglian” on February 8. The article interrogated Wu with short, provocative questions.

CCTV’s broadcasting of Wu’s criticisms contributed to their widespread influence on public opinion and caught the regulators off guard. For example, Liu Hongru, the former head of CSRC, expressed his frustration over Wu’s criticisms, complaining that Wu could have communicated with the CSRC directly rather than talking to the media (Liu, 2008).

To counter Wu’s criticisms, Li and four other prominent economists organized a conference in front of the media on February 11. Among the five economists, Li Yining, Dong Furen, and Xiao Zhuoji were in their 60s and 70s, and held various positions in the Chinese Peoples’ Political Consultative Conference, deanship or directorship in top universities and research institutes, and editorship in prestigious journals. The other two, Wu Xiaoqiu and Han Zhiguo, were in their 40s and rising stars in the field of economics. The organizers of the conference said that “the stock market has reached a critical point” and “if Wu wins this debate, it will be a disaster for China’s capital market.” The object of the media conference was said to be to “completely counterattack the various speeches of Wu” (Wu, 2001). For example, Li Yining commented: “Just because there are several bad apples in China’s stock market, it does not mean that China’s stock market is pitch black.” Li recalled his role as the leader of the team that had drafted the Investment Fund Law, and he described the securities market as “a newborn baby” that needed care and tolerance.

Soon many economists with national reputation joined the debate. Some of them praised Wu for his open criticisms, while others supported Li and offered their own insights into how to better develop the stock market. Extensive media coverage made this one of the biggest controversies concerning the stock market. In 2001, Wu published a book to defend his standpoints and make counterattacks. In the following year, Wu’s opponent in the casino controversy, Dong Furen, also published a book. Although not explicitly targeting Wu, Dong’s book contained strong criticisms of Wu’s arguments and pointed to the negative impact of the casino controversy.

The opponents disagreed on facts and values and attacked each other’s ethos. Factual arguments abound in the debates. Economists from both sides employed technical languages to argue whether the stock market was overheated, and whether speculation was detrimental or conducive to the stock market. Value judgments were central to their arguments. Wu’s camp denounced crony capitalism and warned the negative impact of an out-of-control stock market on the broader society. Li and his colleagues were most concerned about protecting the immediate interests of participants in the stock market; they argued that Wu’s words were detrimental to the stock market because individual investors would suffer huge financial loss in a market crash caused by Wu’s words.

Perhaps the most revealing attacks are on each other’s ethos. Wu noted that a new social group that emerged from the transition had interests that lay in the absence of

rules and laws so that they could take advantage of their special positions to engage in rent-seeking. According to Wu, this new social group exploited individual investors with their financial “magic” and conducted property reforms as a way to embezzle state property, all in the name of the acclaimed “reform.” Advocates of the group proclaimed themselves radical proponents of marketization, and they labeled people like Wu as “idealists” or even “conservatives.” Wu warned of the danger of the public being fooled by this group. He asserted that the group could move the country to crony capitalism since they represented the roots of corruption: given the absence of clear definitions of property rights for public properties, those who had power and status could embezzle public property in a process of arbitrary, self-interested administrative intervention in the market (Li, 2003: 98; Wu, 2001: 3–31). Li’s camp criticized Wu’s credibility and reputation as an economist. They argued that Wu’s preference of the real economy over the financial economy was the source of Wu’s negative attitudes toward the stock market.

The settling of presumption. Both camps in this controversy were keen to appeal to and convince the public of the soundness of their judgments. Wu’s criticisms quickly resonated with the common people. In 2001, Wu was portrayed by the media as someone who “maintains the intellectual’s independence” and “is the conscience of the field of Chinese economists” (Ma, 2006: 54). Even individual investors who suffered losses due to the market crash immediately after Wu’s criticism praised Wu for speaking the truth (Ma, 2006). However, the Shanghai composite index went below 1000 points in 2005, after four years of bear market. Liu Jipeng, an economist closer to Li’s camp, concluded that the casino controversy was the reason for the abnormal and long bear market between 2001 and 2005 when the Chinese economy was growing at double digits. A few years after the casino controversy, individual investors changed their mind and blamed Wu for causing the bear market, leaving numerous investors trapped, and losing money (Ma, 2006).

It should be noted that the debates that take place between economists are different from the sensemaking among the common people, which may explain why individual investors praised Wu in the beginning but became critical of him a few years later. The average individual investor does not approach issues from a moral or institutional perspective, but rather from material interests. Wu’s points that it is wrong for the government to “lift” the market when the market is down and that market manipulators should be prosecuted are concerns of expert elites. Individual investors in fact wish the government would lift the market to benefit individual investors, and they will approve of the manipulators as long as they leave some opportunities for individual investors to obtain a piece of the pie. They call these “nice manipulators,” in contrast to the “evil manipulators” whose manipulation strategies do not provide much opportunity for individual investors to profit. After all, the average individual investor in China at that time would most likely hold a split view. On the one hand, they would be critical of the manipulators, but on the other hand, they would not be

happy about government regulation, because tightening the regulation would almost always mean declining prices and decreasing trading activities (Li, 2001).

In the casino controversy, both sides acted as if neither held the presumption. Based on historical accounts, we determined that Li's side had weak presumption at the start of the controversy, but the presumption tilted to Wu's side after the controversy. Before the controversy, the idea that the stock market is like a casino is prevalent, but implicit. When renowned economists made this claim publicly with big fanfare, it exposed problems and assumptions that were previously hidden or ignored. Behaviors previously taken as legitimate now faced the burden to prove their legitimacy. Prosecutions of wrong doings that were weakly implemented previously now were taken much more seriously.

Policy choices: revising both sides of the hybrid institution. The presumptive tilt to the Keynesian side for stronger regulation prepared the public for many regulatory endeavors to correct the problems brought up by the initiator of the controversy. The casino controversy exposed the most serious problems of the stock market: unrestrained speculation, unlawful behaviors of listed companies, and rampant manipulation backed by state-owned companies, banks, financial intermediaries, and institutional investors. Some of these problems were addressed by the CSRC in the years following the controversy. For example, the CSRC announced a campaign to combat and eliminate the wrong behaviors in the stock market and to “cleanse and purify” the second largest Asian capital market (Bruce, 2001). The new head of the CSRC, Zhou Xiaochuan, endeavored to strengthen the prosecuting power of the regulator and indicted unprecedented numbers of fraudulent behaviors (Li, 2002). Between 2001 and 2005, 50 securities companies were forced to close and the securities industry as a whole underwent reorganization (Qi, 2010).

Along with stronger determination to regulate the stock market is the attempt to further liberalize the stock market from administrative interventions. Although Zhou Xiaochuan's attempt to bring the stock market more in line with international norms encountered great resistance from powerful interest groups (Walter, 2011), he was able to revoke many policies associated with socialist values. New policies reduced administrative interference in the IPO process, introduced international accounting standards, encouraged the further development of funds, listing Chinese firms on international stock exchanges, and deliberated adopting modern practices such as stock market derivatives. In a sense, although the Keynesian side seemed to have gained the presumption after the controversy, the initial defender in the controversy also got some of their proposed marketization policies implemented.

The MBO Controversy: Are Management Buyouts Abusing State Assets?

Bear market from 2000 to 2004. The years following the casino controversy were characterized by unrestrained issuance of new shares coupled with investors' reluc-

tance to supply capital. Issuance of shares was commonly referred to by individual investors as “entrapping money” by listed companies. Indeed, many believed that the sole purpose of many companies’ IPO was to raise quick cash. Seeing the market as a cash cow, SOEs fought for IPOs and listed companies continued to issue new shares, despite poor performance. The imbalance between supply and demand further depressed the market.

In the meantime, Western economic theories about the financial market and relations among economic agents became popular in China. Agency theorists used the principal–agent relation and assumptions about the two parties’ risks and interests to re-conceptualize the firm and firm activities. The Chinese leadership used agency theory to frame the state as a shareholder, and thus the problem of share structures was reconstructed as a classical agency problem between the principal and the agent. Agency theory also triggered the awakening of shareholder consciousness, which gave the state a vocabulary to portray itself as an active, controlling shareholder. As the controlling shareholder, the state retained control over some selected SOEs and let go of others by closing them off or selling them to private entrepreneurs.

Rising prominence of New Left. The environment in which the third controversy, the MBO controversy, took place was characterized by a new structure for the incumbent–challenger relationship in the intellectual elite field. The New Left gained power and recognition as a new challenger. Although the MBO controversy broke out in 2004, the rise of the New Left school of thought began in the late 1990s when scholars, some of whom had visited or studied at Western universities, drew inspiration from Western New Leftism for engaging in cultural and social critiques. In 2003, scholars from economics, management, political science, and other fields formed a flagship website known as “Utopia” to disseminate Chinese New Leftist ideas. Some of these scholars had been active earlier, but their viewpoints were sporadic and individually espoused. It was not until the early 2000s that these scholars were recognized as members of a loosely connected group of intellectuals, labeled as the New Left. The rise of the New Left was facilitated by a new generation of political leaders at the top, Hu Jintao and Wen Jiabao, who made important gestures to strengthen the left—such as visiting revolutionary heritage sites and expressing solidarity with the working class (Hook, 2007)—when they took the reins in 2002. The Hu–Wen administration reversed the previous leadership’s efforts to promote private businesses and instead focused on helping vulnerable social-economic groups. This new policy orientation was a response to heightened social tensions and growing populist frustration with the new class of wealthy entrepreneurs (Fewsmith, 2008). The New Left appealed to populist sentiments and soon found support in a broad coalition of interests (Qin, 2003). As the New Left gained momentum by speaking for vulnerable groups and criticizing market practices in China, they obtained acquiescence, if not support, from the top leadership. Their ascendance marked the formation of a credible challenger to China’s neoliberal orientation, seen by many as the hegemonic discourse.

The controversy between Liberals and New Leftists. The liberal orientation occupied presumption in the period leading to the third controversy as China further implemented marketization measures in accordance to its WTO commitments (Ma, 2008). Yet the New Left's discourse was in ascendance considering heightened social tensions (Fewsmith, 2008). Against this background, Lang Xianping, a western trained, finance professor at the Hong Kong University of Science and Technology, initiated the controversy by criticizing management buyout practices and accusing managers of publicly listed companies for embezzling state assets. Table 10 provide some of the points of contention in the surname controversy.

Table 10: Contentious Argumentation in the MBO Controversy.

	New Left	Liberals
Points of departure		
Central message	The stock market has become an instrument for MBO practices. Managers and private entrepreneurs strip state assets and place them in private hands. This harms the state, the people, and individual investors.	Managers and entrepreneurs are critical for economic development. They should not be demonized. They are not stripping state assets through MBOs; instead, they are saving state assets from dissolving altogether.
Premises relating to facts	Based on analysis of the financial statements of listed companies, Gu Chujun colluded with the local government who controls Kelong to manipulate its earnings, thus creating the impression of turning around its poor performance after acquiring it. Gu utilized the liquidity of Kelong to acquire other SOEs: he used 900 million Chinese yuan to gain state assets worth 13.6 billion yuan.	It is not enough to just look at financial statements because not all statements are accurate. Lang completely ignored evidence that Gu also takes on 1.26 billion yuan of Kelong's parent company's debt. The listed companies did much better after they were acquired by Gu. It is true that Gu violated law to divert funds from listed companies. But it is a pity for the society that Gu's dream to consolidate the white-goods industry was dashed.
	The controlling shareholders of SOEs—many of them local governments—were in a hurry to sell and sell cheap.	The poor-performing SOEs are like ice cream. If they are not sold quickly to entrepreneurs, the value of their assets is likely to dissolve.
	Managers of SOEs are like nannies: they are agents who work for the principal—the people. We should not allow nannies to become the owners and take state assets into their own hands.	Managers of SOEs are entrepreneurs who create extraordinary value. The problem in our country is the absence of “owners” for SOEs. SOE managers who sell SOEs to more capable hands are in fact executing the duty entrusted to them to protect the state's interest.

Table 10 (continued)

	New Left	Liberals
	Managers cannot obtain ownership of the SOEs because the ownership belongs to the people.	The state as the owner of SOEs is abstract, and those controlling the SOEs are government officials. In this system, managers cannot obtain an adequate price for their contributions. Giving them stock options is a way to incentivize them.
	The stripping of state assets by private entrepreneurs through MBOs is rampant.	Many SOEs are in debt and burdened by social welfare for employees. Their being for sale does not necessarily mean the loss of state assets.
	SOEs are not necessarily inefficient. State ownership can be effective. The property reform is not the most effective way to turn around SOEs.	SOEs are not compatible with a market economy. Private property rights are the foundation on which a market economy can operate efficiently.
Premises relating to values	It is wrong for the state to “retreat” from the economy by reforming the property rights of SOEs: it unjustly transfers state assets that belong to the people to private hands.	We should be more concerned about the danger of the state “marching forward” because it will likely lead to an unfair state monopoly, centralization of power, and appropriation of private assets.
	The property right reform of SOEs should be stopped. Private entrepreneurs have embezzled state assets in the name of reforming the property rights of SOEs. These temporary workers suddenly become the “legitimate” owners. They feel no obligation to the duty entrusted to them by the state and individual investors. This is unfair.	The demonization of private entrepreneurs in public opinion is wrong. Private entrepreneurs contribute to the society and should be praised for creating some of the most successful companies in China. They help local government turn around poor-performing SOEs. The public and the media should be nice to these entrepreneurs.
	The neoliberalism and the “Washington Consensus” that dominate China’s SOE reform will lead to the downfall of China, just like what happened to the Soviet and Eastern Bloc countries. Neoliberalism will turn China into a capitalist country.	China’s reform has grown from exploration and practice on the ground, rather than following a neoliberal roadmap. The New Left assault has allied with the Old Left to negate and oppose China’s reform.

Table 10 (continued)

	New Left	Liberals
Premises relating to arguers' ethos	Mainstream economists have lost universal values and become the spokespersons for interest groups. Many economists sit on the boards of listed SOEs, and they do not tell the truth even though they know the scandals well. Economists who work for the government say whatever the government wants them to say. Mainstream economists as a group have lost people's trust.	Lang does not have a sufficient understanding of Chinese SOEs, the macroeconomic and transition conditions of China, and the complexity of China's history and society. He does not look at the correct data, fails to conduct adequate research, and does not know how to calculate the value of SOEs. He has no credibility for speaking about Chinese SOEs.
	Lang is brave to launch attacks on so many high-profile listed companies and their star COEs. Like public intellectuals, he takes on the social mission, has public conscientiousness, helps the public get closer to the truth, and revolts against the discourse hegemony populated by vested interests.	The problem that Lang brought up has always been intensely debated among mainstream economists. It is inappropriate to bring these debates to the public's attention too early, because quiet changes are more likely to succeed than sensational ones. That Lang goes beyond the realm of academia and enters the realm of the public is irresponsible.
		Lang is motivated by a desire for fame, popularity, and stardom, rather than by a commitment to contribute to society. The greater a scholar's reputation, the more prudent he should be about what he says, because a few of his words may have a large impact on society. A scholar who wags his tongue too freely will bring great damage to society.

On August 9, 2004, Lang Xianping gave a speech at Fudan University in Shanghai titled "Greencool: A Carnival at the Feast when 'State Retreats and Private Sector Advances'." In this speech, Lang directly criticized Gu Chujun, the president and controlling shareholder of Greencool, a Hong Kong-listed mainland company. Gu's Greencool became the controlling shareholder of Kelong in 2001 and subsequently acquired several other SOEs listed in mainland stock markets. Kelong was a leading mainland refrigerator company listed in Hong Kong. It was plagued by declining profits due to a series of top-management successions. Lang accused Gu of embezzling state assets in the process of acquiring SOEs. Gu denied the charges and responded by suing Lang for crime of defamation.

Lang's accusation soon escalated into a heated debate among economists. Chinese scholars who considered themselves non-mainstream, New Left economists unanimously supported Lang. In fact, the New Left economists used Lang's attacks as an occasion for launching their long-suppressed grievances against the liberals, whom they regarded as

the “mainstream economists.” Lang’s criticisms are seen as the trigger that brought to the surface the conflicts and division between mainstream and non-mainstream scholars in the field of economics (Ma, 2006). Those who call themselves non-mainstream criticized the mainstream economists for occupying the key positions in academia, funding committees, and government agencies, and accused them of exerting the hegemony of neoliberalism and marginalizing non-mainstream economists and their New Leftist views. Economists who broadly identified with the New Left, individually or as groups, defended Lang’s point and attacked neoliberalism in the media through organized events and by sending public letters to the central party and government leaders.

On August 28, non-mainstream economists organized a conference sponsored by SOHU, an internet portal listed on Nasdaq. According to Yang Fan, a leader of the non-mainstream economists, the organizers faced the pressure from the government and prepared for changing the location of the meeting in case the sponsor suddenly changed minds and withdrew from providing the venue for the conference. Other New Left leaders, such as Han Deqiang and Zuo Dapei, are all university professors and have been vocal in criticizing the neoliberal hegemony in China. Lang Xianping gave the first speech and proclaimed that his intention to attend this conference was to “repudiate the neoliberalism that has dominated the property rights reform for the last twenty years.” Zhang Wenkui, an economist at the Research Center of the State Council, was the only opponent in this conference representing the liberals. Zhang directly refuted Lang’s points; however, his speech was interrupted several times by the emotional remarks of a New Left economist. Observers noted that this conference turned divergent standpoints into opposing camps: New Left and Neoliberals, and triggered much larger battles between the two. Right after the conference, the three leaders of the New Left published an open letter on the Internet addressed to the top leadership.

The liberal economists in mainland China at first dismissed Lang’s criticisms, only responding after a series of provocations by the media. For example, when newspaper reports about Lang’s speech failed to elicit a public response from economists, one newspaper published a piece entitled “Reflection on the case between Lang and Gu: Why has the field of economists collectively lost voice?” The piece lamented that Chinese economists had either limited themselves to the scholarly field or worked for investment banking or the government, and that in all three cases they chose to remain silent when society needed their voice. The article questioned economists for lacking the social responsibility of public intellectuals (Wang, 2004).

Zhang Weiying was the first elite liberal economist who publicly denounced Lang’s ideas and his action. On August 28, *Securities Market Weekly* published a long interview of Zhang Weiying, the economics professor and Vice Dean of the Guanghua School of Economics and Management in Beijing University. Titled “Zhang Weiying Responds to Lang Xianping: Be Kind to People Who Contribute to Society,” the article countered Lang’s point that it was wrong for the state to retreat and the private sector to advance, arguing instead that the process of the retreating state and advancing private sector was a process of wealth creation: “without the advancement of the private

sector, China would not have had the development it achieved.” Zhang also refuted Lang’s point that the biggest danger of the society was the loss of state assets, arguing instead that the biggest danger was the infringement on private property, and that delaying the SOE property rights reform would have meant even bigger depreciation of the value of state assets. Zhang also questioned the moral character of Lang, emphasizing the importance for scholars to be independent of the populist sentiment of the time. Wu Jinglian was interviewed by the media at the same time. Wu acknowledged that there were situations where state assets were embezzled during SOE restructuring; however, he disagreed with Lang’s conclusion that SOEs were generally efficient and that SOE property rights reform were wrong.

This round of counterattack generated a large amount of coverage by the media. The “mainstream economists” organized a series of events that showed support for Gu. On October 21, 2004, a dozen economists who were directors and deans of leading research institutions attended a workshop on “The Twenty Years of Development of Kelong and the Roadmap of China’s Enterprise Reform.” The Research Center of the State Council issued a report on Kelong, affirming the success of its restructuring, thus indirectly supporting Gu Chujun. A few days later, Gu appeared in another conference on SOE reform and the development of private businesses. In December, Gu gave a speech at the “2004 China’s Corporate Leaders Summit,” along with the Chairman of China’s central bank, other ministry officials, and Zhang Weiying. Gu’s appearances at these high-profile conferences show that he was still regarded as an extremely successful business leader in China.

As more economists joined the debate, the topic quickly moved away from the wrongdoings of a single company to the overall direction of the property rights reform of Chinese SOEs. At this point, the legal dimension of the property rights reform became a hotly debated issue, which the field of legal scholars was mobilized to address. Legal scholars published articles and organized conferences to proffer their opinions. They moved the debate of SOE property rights reform from moral and conceptual grounds to the legal realm of how to establish a set of transparent, independent, fair, and rigorous judicial practices that would ensure the legitimacy of the reform.

As the debate intensified, sociologists and historians joined in and started new topics. For example, the sociologist Sun Liping, widely regarded as a public intellectual, described this debate as representing the shattering of the reform consensus in China and pointed to the distortion of the reform by interests that led to deep cracks in the social structure. Another public intellectual, the historian Qin Hui, criticized both camps of economists and identified the fundamental problem as the lack of institutions for making the state accountable. Yet another sociologist, Ding Xueliang, directed his criticisms toward the entire field of economists for failing to engage in independent scientific research, which quickly became a hot issue in the media.

Participants in the debate also include older generations of scholars and retired party cadres who had overseen party propaganda and think tanks joined the discourse. Some directly participated in the substantive debates, others made observa-

tions about the significance of the debate, and yet others appealed to the central government to make up its mind and send clear signals concerning its stand in the debate. Although the New Left describe themselves as non-mainstream, they actually found allies in the Old Left, those who had occupied key party and government positions or who had been high-profile economists in the past. For example, Liu Guoguang, an economist who began advocating for market mechanisms in 1979 but later turned more conservative, used the Internet to publicize his criticisms of the Westernization of China's economics education and research, and he quickly gained popularity and support from the New Left (Ma, 2006).

The controversy far exceeded the wrongdoing of a single company and spun off many debates. For example, Lang's criticisms sparked debates on the poor corporate governance of listed companies, the lack of transparency, and poor protection of individual investors' rights. The state used these criticisms to argue that time was ripe for the "share fragmentation reform" to turn non-tradable shares tradable. Regarding SOEs, the MBO controversy turned into a debate on whether the SOE property rights reform is the right direction of SOE reforms. In the field of banking, the restructuring and listing of state-owned banks incurred interrogations like Lang's. Lang Xianping was described as a "storm" and soon several Old Left scholars started other "storms" that echoed Lang's concerns. To the liberals, the New Left had entered an alliance with the Old Left, with the intention to "negate and reject the reform." Several older generation liberal intellectuals and party cadres voiced their concerns about the New Leftist challenge to reform and called the top leadership to intervene. Sociologists pointed to the shattering of the reform consensus that had existed throughout the reform process. They framed the MBO controversy as a debate that concerned the life and death of the economic reform.

Settlement of presumption. Economists were deeply divided on the questions of whether Chinese SOEs and their managers were villains or heroes, whether top management stripped state assets in MBOs, and whether property rights reform meant the loss of state assets. At the beginning of this dispute, the liberals held the presumption since the reform had been enacted under a liberal orientation and MBOs had become a new trend in the reform of the stock market's share structures. Underlying the controversy was a further divide among Chinese economists about the direction of market reform that was driven by the rise of the Chinese New Left. Like the liberals, the New Leftists were critical of the government. However, where the liberals believed in the power of the market, the New Leftists directed their criticisms toward the dangers of market forces, such as an overly powerful managerial class (Fewsmith, 2008; Oi, 2010).

Several actions by the government indicate the shift of presumption to the New Left. While economists were engaged in this debate, the National Audit Office initiated an investigation into Gu's company. In September 2005, CSRC concluded that Gu violated Securities Law and turned him over to prosecutors. Gu was sentenced to eight years in prison in 2008. The arrest of the corporate entrepreneur Gu sent a clear message of the position the country's leader took in response to the debate. It was rare for

the leaders to explicitly take sides in a controversy. Gu was a public figure in China who had made numerous TV appearances and had earned great recognition for being a successful corporate entrepreneur. His sudden fall from grace represents a significant turn of attitudes toward entrepreneurs. Whereas the rising social group of corporate entrepreneurs had previously been admired and praised for the wealth they accumulated during the reform, the new trend was one of suspicion and even hostility toward the wealth gained by this social group (Ma, 2008). There were discussions in Chinese society, as well as in top level meetings of the CCP, about the “original sin” of these Chinese capitalists. The phrase “original sin” was used to describe the fact that many entrepreneurs gained their seed money through illegal means. Whether the “original sin” should be purged became a contentious topic (Ma, 2008). The arrest of Gu symbolized that the presumption of the public discourse had shifted to the New Left (Fewsmith, 2008).

Policy outcomes: transforming both sides of the hybrid. The immediate impact of the controversy was that the government implemented a series of measures to stop MBO and to take stronger steps to monitor the corporate restructuring and property reform of SOEs. The State-owned Assets Supervision and Administration Commission (SASAC) of the State Council provided detailed rules on the transfer of state property rights in September 2004. On October 29, 2004, the SASAC published an editorial in *People’s Daily* announcing that the practice of “management shares” would be terminated. In a conference, Vice Premier Huang Ju spoke of big SOEs owned by the central government, stating that they would not be permitted to have MBOs. Furthermore, the “big shareholder model” in corporate governance, which provided extra incentives to managers, was no longer promoted, due to concerns about the increased inequality between workers and managers (Oi, 2005). In fact, the SOE property rights reform was no longer the core of SOE reform as evidenced by the wordings of Party Congress Reports between 2002 and 2007. Finally, because of the heightened populist sentiment against private businesses, the scheduled deliberation of the Property Right Law by the Standing Committee of the National People’s Congress in December 2005 was unexpectedly cancelled, and the final approval of law did not go through until 2007.

In the meantime, a profound transformation occurred in the conception of the control of state assets. Conceptions of control are totalizing world views and cultural templates that structure actors’ interpretation of problems and solutions (Fligstein, 1996; Fligstein & Brantley, 1992). As an accomplished professor in finance and accounting, Lang Xianping used the financial statements of publicly listed companies to accuse private entrepreneurs of stripping state assets when taking over SOEs. Although Lang’s criticisms were widely rejected by mainstream economists as out of context and inadequate, his arguments indirectly populated the finance conception of control. A dominant model of modern corporations in the West since the 1970s, the finance conception of control is different from the manufacturing or sales/marketing conceptions of control in that it views firms as collections of assets with different rates of

return and uses financial tools to measure performance and manage firms (Fligstein, 1990). Around this time, the state seemed to adopt the finance conception of control in its understanding of its relationship with SOEs and the stock market. The state learned that it does not have to operate the factories to “own” SOEs; its ownership can be reflected in the amount of capital that the state controls.

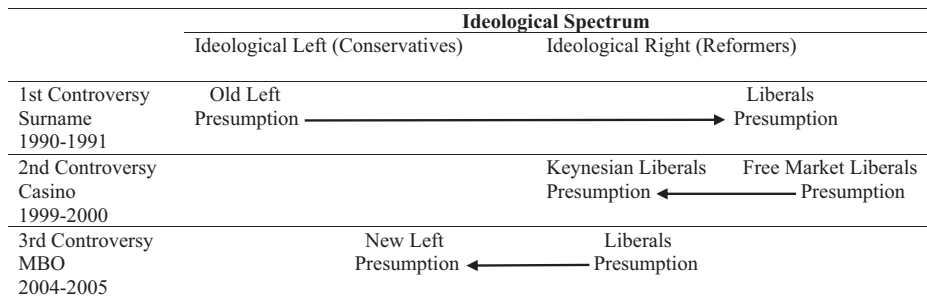
The state pushed for two reforms, both consistent with the perspective of the finance conception of control. First, the state finally initiated the “share fragmentation reform” in 2005, which was to make non-tradable state and legal-person shares tradable. At first appearance, this is a step toward marketization and liberalization through removing the socialist imprints from the surname controversy, and it seems contradictory to what Lang advocated. Yet underlying the “share fragmentation reform” is the government’s confidence in maintaining control over listed SOEs even when all shares become tradable. In fact, the controlling shareholders, including the SASAC, the parent company of listed SOEs, and various levels of government, are the greatest beneficiaries of the share reform (Walter & Howei, 2006). The SASAC was established in 2003 and directly controlled 168 SOEs on China’s two stock exchanges, accounting for 34% of the overall market value. As a result, the reform needed to obtain approval from the SASAC, and the essence of the reform is a negotiation between the CSRC and SASAC (Shi, 2005). Inspired by the finance conception of control of firms, the state now sees the stock market not only as a vehicle for “helping” SOEs, but also as a mechanism for “growing” state-owned capital. Additionally, guided by the finance conception of control, the state shifted the central function of SASAC from one that largely involved facilitating selling SOE ownership from the state to private hands to one that focused on managing the 177 SOEs directly owned by the central government (Shi, 2005). This change of direction also occurred for regional SASACs who control regional SOEs. The SASACs were endowed with unprecedented power to restructure SOEs and list them in domestic and international stock markets. Between 2003 and 2012, the total amount of state assets held by SOEs directly controlled by the central SASAC grew fourfold, and their total tax grew fivefold (SASAC, 2013). By the end of the Hu–Wen administration, the SOE sector, which had been a liability and burden, became the darlings of the economy, with more than 40 SOEs listed in the Fortune Global 500, and it was even praised by Western academics as better performing than GE (Guthrie & Slocum, 2010). In other words, an indirect outcome of the MBO controversy was its impact on the SOE field: the state significantly strengthened the SOE sector through resource and policy support.

Elite Controversies and Changes in Presumption

Comparing across the three controversies, we found that controversies between elite actors changed presumption. Figure 12 graphs the contending parties and the shifts in presumption for each controversy. The surname controversy between the Old Left and the liberals over whether the stock market has any place in a socialist country

ended in a shift of presumption from the conservative Old Left to the liberal side. This means that the claim that stock market is capitalist is held as a belief that needs no proof before the controversy, and after the controversy, people generally believe that the stock market should be allowed to open and develop until it is proven to be wrong and ineffective. The presumptive tilt gave the liberal ideology an upper hand, and a pro-market and pro-business mentality prevailed after the surname controversy for more than ten years. During these years, policy orientation was dominated by marketization and liberalization of the economy.

In 2002, the casino controversy, over whether the stock market is too speculative and manipulative, pushed the presumption in the direction of more Keynesianism. The previous presumption that tolerated speculation and manipulation gave way to the belief that stronger regulation and prosecution need no proof. In 2004, the MBO controversy over whether management buyouts are stripping state assets pushed the presumption further to a leftist direction. The presumption that was held by the liberals between the surname controversy and the MBO controversy was replaced by a new presumption of the New Left, which raised fundamental doubts about the previously held belief that pro-market and pro-business practices are generally beneficial.



*The start of the arrow indicates where the presumption lies before the controversy, and the end of the arrow indicates where the presumption shifts to after the controversy.

Figure 12: Shift of Presumption in Three Controversies*.

Furthermore, we provide a sketch of a model for understanding how controversies shape the trajectory of policy choices. As shown in Figure 13, t0 indicates the time for the beginning political climate which contains the dominant political thought and the existing institutional arrangements. At t1, contentious argumentations by intellectual or expert elites may escalate and spiral into a societal wide controversy that involves other expert elites and induce the response from authoritative elites. Arguments from opposing sides strive to affect the presumption at t2 by exposing contradictory assumptions and worldviews. The strength of arguments, the appeal of the arguments to the general public, together with leaders' response may determine which rhetoric win and become the new presump-

tion. The new presumption then tilts the judgment of what institutional arrangements are regarded as legitimate. The new legitimacy judgment shapes the political climate, including the emergence of new political thought and changes in policy choice at t3.

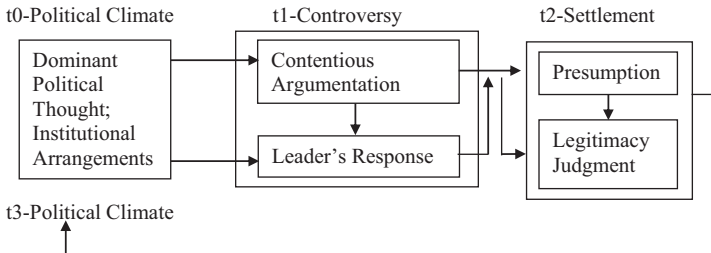


Figure 13: Controversies and Institutional Change.

Discussion and Conclusion

Elite Dynamics and Legitimacy

Our objective in this study is to examine how elites shape legitimacy beyond engaging in ostensibly coercive actions. Although institutional theory emphasizes cognitive and symbolic processes (Friedland & Alford, 1991; Hirsch, 1997; Zucker, 1987), few studies examine the dynamics of elites when they disagree. Our study contributes to studies of elite dynamics by showing how elites' spontaneous sensemaking through confrontational interactions affects the trajectory of institutionalization.

By studying three era-defining elite controversies about China's stock market, we found three structural components to this process. First, elite controversy is embedded in the broader landscape of political ideologies and the structure of the field of elites. Different political theories or ideologies that are dominant, latent, or emergent provide the context for elites to engage in confrontational discourse. Elites compete for resources and status by taking on the positions of incumbents and challengers. Controversies are thus manifestations of the changing power relations in the field and often mark the rise of new political schools of thought and associated intellectuals.

Second, different types of elites play somewhat different roles in controversies. In the contest for shaping legitimacy judgments of an emerging or controversial institution, elites, especially intellectuals, may spontaneously confront each other in public. These discursive confrontations are important moments of breach where taken-for-granted assumptions are challenged, and new legitimacy judgments are called for. The myriad of different arguments that elites employed in controversies reflect the struggle of elites in making sense and articulating a complex world of reality in times of confusion and uncertainty. Rhetorical theory suggests that whereas persuasion

takes the form of advertising and propaganda that move the audience to action, argumentation is associated with conviction or a quest for intellectual agreement (Perelman & Olbrechts-Tyteca, 1969). Through the production and dissemination of ideas and careful crafting of arguments, the Chinese intellectual elites sought to make sense of the stock market institution and to convince the public and the state of their points of view. Their winning public adherence for their points of view often places pressure on state actors to change their policy orientations.

Authoritative elites sometimes participate in these debates as well, and their participation can shift the balance of strength between the two sides of the argument. From all three controversies, it is evident that authoritative elites responded to the controversies with action and policies, which determined which side won the presumption. But it is also evident that authoritative elites do not just assign presumption arbitrarily to one side of the debate. Instead, they seemed to watch the controversies unfold and gauge public opinion before making decisions.

The allocative elites, i.e., elites of the corporate business sector, do not feature prominently in these debates. Corporate elites are a relatively new phenomenon that emerged only after the market reform. The restructuring of SOEs into shareholding companies and the transfer of state assets to private entrepreneurs fostered the growth of the corporate elites. Gu Chujun, the CEO who used MBOs to acquire SOEs, represented corporate elites. However, allocative elites seemed to be relatively nonexistent for the first two controversies and lost the presumption in the third controversy. This indicates that the allocative elites gained prominence after the first controversy but declined after the third controversy.

Finally, elite controversies are spontaneous and non-linear processes. Each controversy lasted for an extended period, between one and two years. In addition, at least the first two controversies saw revivals in later years, showing that they are still important sources for the collective construction of meaning (see Figure 11). As processes they are emergent rather than deliberate. The initial attackers probably never imagined the scope and magnitude of the debates they triggered. The process of controversy is non-linear, characterized by surprise and contingency, and held together by the ongoing agency of actors reflexively managing their situations (Tsoukas & Chia, 2002). Moreover, within each controversy, one can observe many smaller controversies, each involving a set of actors focusing on a particular debate. Not all small controversies are resolved. Yet they serve to trigger new questions, which invite rebuttals and hence new controversies. As more actors from different fields join the debates and expand the topic, and rounds of attacks and counterattacks between old and new opponents play out in the public discourse, the overall contentiousness escalates and intensifies. The impact of a controversy is the accumulation of these smaller controversies, each agitating a particular dimension of the public sentiment.

Understanding China's indigenous elite dynamics has important implications for theorizing China's radical change. Western observers often marvel at how China has defied conventional western wisdoms at economic reform (Pan, 2018; Specia, 2018).

Our study's emphasis on elite controversies tells a story of intense public scrutiny of western ideas by respected and prominent intellectuals. The relatively spontaneous contestations of sophisticated arguments were not confined in intellectual circles; they had wide impact on the public consciousness through the broad engagements of numerous local elites and opinion leaders. These contentious debates often trigger responses by the political leaders and thus play a role in shaping economic policies. Similar debates and controversies occurred in numerous other economic areas. This suggests that some western wisdoms, such as the benefits of public deliberation and debates, may have actually played a significant role in China's economic transition.

Contentious Argumentation as an Anchoring Mechanism for Legitimacy Judgments

Debates, disputes, and controversies play an important role in institutional change or maintenance by producing an effect on the legitimacy of practices, rules, and structures (Fritch, Palczewski, Farrell, & Short, 2006; Hoffman & Ventresca, 1999; Maguire & Hardy, 2009; Patriotta et al., 2011; Suddaby & Greenwood, 2005). Our findings suggest that controversy affect legitimacy through two mechanisms: contentious argumentation and presumption. In this section, we focus on explicating how contentious argumentation serves as an anchor for sensemaking, which shapes legitimacy judgments.

Sensemaking is interwoven with institutions by providing the micro-level anchor for institutions to emerge (Weber & Glynn, 2006). Sensemaking is inherently discursive (Phillips et al., 2004) and narrative (Brown, 2000), relying on vocabularies (Loewenstein, Ocasio, & Jones, 2012), symbolic processes (Zilber, 2002, 2006), and the production and dissemination of texts (Phillips & Oswick, 2013) to create meaning. Based on studying the three controversies, we argue that the anchoring effect of sensemaking on institutions is importantly mediated by contentious argumentation, for three reasons. First, contentious argumentation makes it imperative for actors to reexamine assumptions and thus provides an opportunity to weaken and loosen established assumptions. Green, Li, & Nohria (2009) found that as actors taken a belief for granted, they no longer state the premises or assumptions from which the belief derives. So, the suppression of assumptions indicates a high level of cognitive legitimacy of a belief. A recent study furthers this observation by showing that when taken-for-granted assumptions are explicitly reaffirmed by powerful authorities, they create uncertainty because the fact that these assumptions are being discussed decreases the level of cognitive legitimacy (Harmon, 2019). These studies point out the nuanced act of stating taken-for-granted assumption and the complications it may have on legitimacy judgment. In our study, each controversy opens up space for actors to reexamine assumptions. For example, in the first controversy, when the Old Left explicitly stated the assumption that stock market is capitalist and use it to claim that the stock market should not be allowed to open in a socialist country, it forced the liberals to come up with sophisticated and unorthodox theorizations that justified

the stock market based on Marxism and socialism. In a sense, explicitly invoking assumptions to shut down the legitimacy of a controversial practice leads to the opposite effect: it loosens the ossified assumption by creating uncertainty and it creates the conditions for development of new assumptions, in this case, the innovative claim by Deng Xiaoping that market is a means to an end, and therefore can be employed in a socialist country to achieve socialist ends.

Second, contentious argumentation fosters inquiry by offer opposing rationales for the same practice, thus forging two sets of perceptions and interpretations by weaving together identities, experiences, and environmental cues. As contending parties actively challenge and oppose one another, they bring more facts, broader views, wider lenses, and unconventional alternatives to the discussion (Simons, Pelled, & Smith, 1999). For example, in the casino controversy, liberals were divided in their perceptions and interpretations of the stock market and consequently called for opposite actions. Since the parties on both sides were renowned economists, the clash of their ideas was enabled by scholarly investigation, research, and formulation. Their debates drew upon the bubble behaviors of other counties and markets, comparing these with the condition of China's stock market. Disputes about facts, values, and credibility of economists greatly enhance the complexity of the issue and expand the scope of inquiry.

Finally, the outcome of contentious argumentation is often neither agreement nor an incommensurable fragmentation of positions. Agreement is hard to achieve since the contested issues often involve fundamentally conflicting interests and worldviews, yet what comes out of the controversy tends to be a new understanding that transforms the competing views and policies that take into consideration the interests of multiple social groups. For example, although neither the Old Left nor the liberals won the surname controversy, the “socialist market economy” slogan that the authoritative elites formulated after the controversy combined both sides and allowed China to strengthen its market mechanisms as well as maintaining some of the core socialist institutions such as SOEs. The many socialist imprints of China's stock market at its founding testify to the power of both sides to assert legitimacy of their worldviews. Similarly, policies after the casino controversy did not just move into the direction advocated by one side; instead, both Keynesian regulations and market liberalization measures were pursued simultaneously. In the third controversy, the New Left picked up cues from the emerging social problems that accompanied economic reform and raised questions that had been ignored by the then-dominant neoliberal discourse (Hong, 2010). The controversy transformed the state's view of its ownership rights of SOEs and unleashed a new era of strengthening SOE financial assets through the stock market institution.

Presumption as a Tilting Mechanism for Legitimacy Judgments

In addition to contentious argumentation which anchors sensemaking by challenging opponent's assumptions and rationales, we observe presumption to be another key

mechanism that mediates the effect of sensemaking on the legitimacy judgments of institutions. Presumption gives advantage to one party of a dispute over another by assigning the latter the burden of proof. In this way, presumption functions as an argumentative bind on future legitimacy judgments (Hoefer & Green Jr., 2016). We make three contributions to the understanding of the role of presumption in legitimacy judgments.

First, our findings suggest that presumption is an indicator of the relative strength of a competing ideological stance. Hoefer and Green (2016) contended that some institutional practices have stronger presumptive support than others, but did not provide an empirical case for what the relative strength of presumptive support meant in an institutional setting. Based on our close analysis of three controversies about China's stock market institution, we concluded that the initial presumptive strength is a measure of the relative strength of the political thought to which the most powerful authoritative elites subscribe. The dominant political thought in China has been the Old Left, the liberal, and the New Left ideologies. When politicians and intellectual elites occupied the most powerful command posts of the society and promoted the Old Leftist ideologies, the prevailing presumption was that anything against the central theorems of this ideology naturally bears the burden of proof. In contrast, when the liberals dominated those command posts and promoted more liberal ideologies, the prevailing presumption then gives the burden of proof to leftist ideas.

Second, we observe that elite actors actively pursue presumption or discharge their burden of proof through contentious arguments in controversies. For example, the Old Left had the presumption when they claimed that the stock market was capitalist and therefore should not be allowed to open: these arguments upheld the status quo and had high level of cognitive legitimacy in China. The liberal advocates for stock market adoption therefore had the burden of proof. However, instead of taking on the burden of proof, the liberals used rhetorical strategies to discharge their burden of proof and thus seized the ground of presumption. The liberals insisted that the stock market was *consistent* with socialist ideology and beneficial to advancing socialist interests. In this way, they forced their opponents to accept the burden of proof. The Old Left was put in the position of having to adduce reasons against something that *preserves* the institutional status quo. When one side successfully pushes the burden of proof to the other side, it tilts the argumentative bind and thus influences the legitimacy judgments of the audience.

Finally, the presumptive tilt that gives the party an initial advantage can turn into a disadvantage because of the nature of contentious argumentation. As we noted earlier, argumentation seeks intellectual comprehension instead of just propaganda or persuasion. Contentious argumentation helps reveal the truth because assumptions about facts, values, and characters are constantly questioned. Consider the example of the civil litigation again. Even though the defendant has the presumption of innocence, the defendant is still in a more vulnerable position because the case against the defendant would have already passed a motion to dismiss the plaintiff's allegation. A plaintiff can then demand information from the defendant, which may lead to the dis-

covery of evidence against the defendant. In this sense, initial presumption quickly loses its value and both parties face burden to prove their claims. Of course, the authoritative elites can always resort to coercive measures to reset the presumption. However, the authoritative elites cannot simply assign presumption as they wish. Their decisions are importantly constrained by the public opinion that can shift as the masses are mobilized to support and denounce arguments by opposing camps in a controversy.

The general public is an important audience that intellectuals target and seek to convince with their arguments. For example, an online survey conducted during the casino controversy suggests that 75% of the public agreed with Wu Jinglian (Editor, 2001), which may have affected the authoritative elites' decision to strengthen regulation. Public opinion polls on the MBO controversy indicated that the public overwhelmingly sided with Lang Xianping (Ma, 2006). Online polls also showed that the public no longer trusted mainland Chinese economists (Ma, 2006). These polls reflect the further fragmentation of social communities, such as the disenfranchisement of SOE workers facing job loss and peasant workers within the general public, and the individual investors who felt taken advantage of by institutional investors in the stock market. The fragmentation of society into distinct social communities leads to multiple, competing presumptions vying for domination. As intellectual elites tapped into the public sentiment against private business and triggered a society-wide controversy, a previously subordinate presumption held by some segments of the society was turned into the dominant presumption that is reflected in public opinion, which then shaped policy orientation of the top leadership.

In conclusion, this paper demonstrates that controversies are not errors to be corrected, failures to achieve agreement, or outbursts of irrationality. Rather, controversies are often the tipping points of the legitimacy judgments that the audience confers to an institution, thus shaping the trajectory of institutional change. They are the means by which various important interactions occur—between opposing arguments, between intellectual elites and the authoritative elites, and between elites and the populace. This paper highlights the role of contentious argumentation in institutionalization. Contentious arguments are critical for sensemaking because the dramatic and sustained contention challenge taken-for-granted assumptions and prepare the audience for new understandings. Presumption both marks the initial strength of competing ideologies, and becomes the goal of the argumentative maneuvers of opponents, as actors engage in contentious argumentation. The design and configuration of a focal institution such as the stock market in China is the result of discursive struggles in which elite actors, in the absence of a definitive answer, compete to give sense to the environment and seek presumptions to influence legitimacy judgments and ultimately shift the institutional trajectory.

Chapter 6

Spreading the Sunshine: The Rapid Growth and Transformation of China's Private Equity Industry

Perhaps the most common mistaken assumption made by Western observers of China is that China's economic reform was a one-way street, with a liberal, market economy as its destination (Sapir & Mavroidis, 2021). This expectation was strong and positive in the early years of China's entry into the WTO, but it has now become very negative since China is in the fifth decade of its reform and shows few signs of converging to the market economy that the West had in mind. Sapir and Mavroidis (2021) have astutely pointed out that China never committed to becoming a "market economy." Rather, the country has always envisioned a "socialist market economy," and the West and the WTO see only the words "market economy" without paying attention to the word "socialist," a concept central to the CCP.

They got the story half right. If China has a collective will, it is indeed expressed in the official vocabulary. However, although the word "socialism" made it into the party line definition of the economic system, this was not automatic. The term "socialist market economy" was negotiated between liberal-minded reformers and the conservative left. From the outset, the liberals would have preferred a market economy without the prefix. They wanted to introduce a "market economy" in the early years of the reform, back in the 1980s, and they advocated a stock market where all shares would be tradable when the Shanghai Stock Exchange was established. However, the conservative left has always envisioned a much more limited scope for the economic reform: a move from a bird cage economy to a requirement that two-thirds of the shares of publicly listed state-owned enterprises (SOEs) would be non-tradable and held by the state sector.

It may well be that in the collective will at the time of China's entry into the WTO, a "market economy" was the dominant meaning for the economic reform and the term "socialist" was only included to placate the conservative left. In this sense, the West may not have misinterpreted China's early intentions; the West just failed to anticipate that the term "socialist" would later be activated, energized, and significantly expanded. China's entry into the WTO certainly aided the country's phenomenal growth: A society once dominated by central planning was transformed into a society with a sizable middle class, a significant group of super-wealthy individuals, and numerous entrepreneurs. The "market economy" catapulted China into being an economic powerhouse, which also became a basis for the legitimacy of the CCP. However, that basis evolved as the state sector participated in the reform. The phenomenal growth of the SOEs enabled a subtle but drastic change: Rather than simply resting its legitimacy on the growth of the GDP, the CCP gradually shifted the basis of its legitimacy from the speed of the

growth to its nature and quality, to equality, and to ideals of “socialism.” Due to ongoing contestations between various ideological orientations and the numerous positions that generations of elites adopted to advance their agenda, the boundaries of what socialism and capitalism mean have continually changed, with the term “socialist” acquiring new meanings and material realities.

This chapter uses the development of the private equity industry in China as an example to illustrate the nature of China’s economic transformation. It aims to problematize conventional assumptions about China, for example, that China is on a one-way road to capitalism, or that it is moving toward being a totalitarian regime. Situating China in one of the long-existing, broad categories of political and economic systems does not do justice to the country’s rapidly developing, complex, and dynamic process. Instead, it is more fruitful to examine what has been said and done in China in order to evaluate how China has been able to create and sustain a category-breaking transformation. China has combined capitalism and socialism in new ways, resulting in new organizational forms that embody many contemporary values but are also capable of unleashing the next waves of resistance.

Private equity embodies a “supreme” version of capitalism in both the most positive and the most negative sense. The positive sense is that, as an alternative investment, private equity has consistently outperformed the public markets in terms of investment returns. It has become increasingly popular during the last two decades. According to Bain and Company, global private equity funds grew from \$108 billion in 2003 to \$1.2 trillion in 2020, an eleven-fold increase in size. In private equity, capital is actively deployed to own and directly manage non-publicly traded firms to generate growth, boost efficiency, and deliver extraordinary financial returns. However, private equity has also acquired negative connotations. The industry is surrounded by a cloud of secrecy: The big names in private equity are rarely covered by the media, and the firms in which private equity invests are not subject to the same disclosure requirements as publicly listed companies. Indeed, in 2014 Andrew Bowden, Director of Office and Compliance Inspections and Examinations at the SEC, delivered a speech to the Private Fund Compliance Forum that was titled “Spreading the Sunshine in Private Equity.” Coincidentally, private funds are commonly called “sunshine private funds” in China, as they need the “sunshine” to neutralize any negative connotations associated with the term “private” and to dispel the impression of illegal and illegitimate operations that were often associated with private funds in the early years of the industry’s development. In addition to its lack of transparency, private equity is also known for aggressive cost cutting, exorbitant management fees, and stripping the assets of the acquired firm to achieve financial returns for the owners, all of which have a history in the heyday of the hostile takeover era in the 1970s and 1980s when a financial innovation known as the junk bond was frequently used in leveraged buy-outs. These practices tend to highlight the notion that private equity is extremely exploitative, so much so that some call it “termite capitalism.” A recent book on the private equity industry, titled “These are the Plunders: How Private Equity Runs—and

Wrecks—America” (Morgenson & Rosner, 2023), accurately captures the negative attitude towards this industry.

Given the ambivalent images of private equity even in the West, one might imagine that it would have a hard time being adopted, let alone becoming popular, in China. However, the prominence of private equity has grown dramatically in the last decade. This raises the question of how its adoption was justified and its development legitimated. I examine the CCP’s official documents, government regulations, media coverage, and reports from trade associations to understand the legitimation of the private equity industry. The findings tell a story of a transformation of the nature of power and capital in China: Rather than exactly copying the Western model of private equity, China imitated the “shape” or signifiers of the private equity industry but has gradually changed the private equity industry’s “content” or signifieds. Specifically, China’s private equity industry has similar signs for the actors, roles, governance structures, deal processes, exit strategies, and regulatory frameworks. However, these signs have undergone two changes: first-order institutionalization, in which signifiers, signifieds, and referents moved to resemble the Western model, and second-order institutionalization, in which the signifiers have continued to move toward the Western standards but the signifieds and material referents have gradually become decoupled from each other and from the signifiers. Central to the decoupling in the second-order institutionalization process is that the “sunshine”—in China’s revolutionary rhetoric the CCP is depicted as the sun¹—has increasingly become a direct and important participant in the industry, more than simply a regulator in the Western sense of the word. Thus, “spreading the sunshine” has acquired a whole new set of meanings in China’s private equity industry.

This marks a fundamental shift in the role of the CCP’s rhetoric in the economic transformation. Beginning in roughly the fourth decade of the economic reform, the rhetoric and the reality of the reform have completely switched lanes: In the past, the economic reform looked more radical than the reform rhetoric as the CCP employed casuistry—rhetoric that appears to be faithful to old principles yet allows the introduction of new elements—to mediate the conflicts between the leftist ideologies and the rapid development of the market system and the private sector. Now, however, although the development of the market and the private sector have continued, the role of the rhetoric has changed. Rhetoric that reassures people of the party’s commitment to market reform and to the private sector is now accompanied by a strengthening of the state sector and central planning and increasingly stringent scrutiny of private entrepreneurs and their dealings, so that affirmatory reform rhetoric is now in the fast lane, accompanied by a more tempered private sector. In addition, four decades after the economic reform and the opening up of the economy, much of the early reform rhetoric has been institutionalized and is therefore subject to a second-order institution-

¹ A famous revolutionary song, “The East is Red,” includes the following lines: “The CCP is like the sun; wherever it shines, it is bright.”

alization in which it acquires additional significance. Indeed, the second-order institutionalization process can dramatically change the system of meaning built on the first-order institutionalization process. Finally, the second-order institutionalization is enabled by and reflects changes in the broader political and economic context. Consistent with the changes in the broader context, the signifiers, signifieds, and materialities of an industry can evolve and form relationships that are loosely coupled, ironic, and polysemic. The new relationships and their fit with the broader context can enhance the popularity of the private equity industry, increasing its adoption and legitimation.

Theoretical Background

Rhetoric and reality through the lens of the semiotic triangle

One would not expect that an actor's rhetoric will always perfectly correspond with actions or events in the world. Common sense tells us that rhetoric may exaggerate, downplay, or distort behaviors and events. Setting aside outright fabrications and lies, even if an actor tries to be truthful, there may be implicit biases and heuristics that get in the way. Moreover, at the philosophical level, the linguistic turn in philosophy has long maintained that language is neither a mere reflection of the external world or internal mind nor a tool at the disposal of actors' strategic maneuvering, but is actually constitutive of social reality and individual subjectivity (Brown, 1977, 1987; Rorty, 1979). The linguistic turn was extensively discussed around the 2000s in the context of management and organization research (Alvesson & Kärreman, 2000; Grant, Keenoy, & Oswick, 1998; Keenoy, Oswick, & Grant, 1997). A strong form of social constructivism treats language as formative of social reality. The conventional sense that rhetoric can exaggerate, downplay, distort, or compensate for reality is based on a conception of rhetoric and reality as two objects that match or mismatch. However, when we see rhetoric as constitutive of reality, the question of the correspondence between rhetoric and reality becomes more a question about their relationships and processes—for example, rhetoric may be a reactant that changes an object, a catalyst that speeds up a change in practice, or an endogenous factor that contributes to the growth, evolution, or degeneration of a phenomenon.

The semiotic triangle provides a structure for understanding the basic correspondence between rhetoric and reality. The semiotic triangle is a commonly used framework that consists of three correlates: the signifier (or representamen, symbol, sign vehicle), the signified (or interpretant, reference, significatum, sense, content, idea), and the referent (or object, denotatum, event, thing). Figure 14 shows the semiotic triangle. According to this triangle, there is no direct and inherent connection between the signifier and the material reality that it refers to or represents. For example, there is no direct connection between the signifier *private equity* and the actual industry with its actors, activities, ownership, valuation methods, and money. Private equity has different signifiers in different countries or linguistic systems. The relationship between a signifier and the signified is

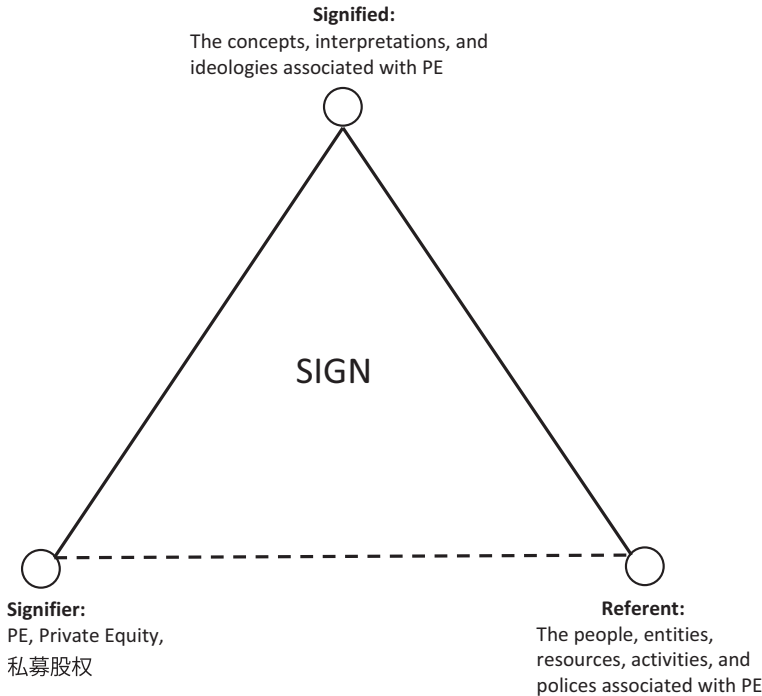


Figure 14: The Semiotic Triangle.

arbitrary and determined by the conventions of a particular society or culture (Culler, 1986). For example, private equity in the US is associated with a history, concepts, and rules that are different from those surrounding private equity in China. The signifier and the signified nonetheless become directly connected once the arbitrary relationship is established, with the two directly eliciting each other in communication. For example, Andrew Bowden said in his 2014 speech to the private equity industry that:

The private equity model is very different. A private equity adviser typically uses client funds to obtain a controlling interest in a non-publicly traded company. With this control and the relative paucity of disclosure required of privately held companies, a private equity adviser is faced with temptations and conflicts with which most other advisers do not contend.

Bowden's audience would have no problem understanding the ideas that he intended to convey because all of the words he used had well established interpretations in the minds of his audience—the private equity advisors. Finally, the relationship between the signified and the referent can be direct, such as when the referent is a concrete object, or indirect, such as when the referent is abstract. The private equity business model is abstract and thus necessitates many additional signs, such as controlling interest, non-publicly traded company, disclosure, limited partners (LPs), general partners (GPs), conflicts of interests, and so on.

Denotational and Connotational Institutionalization

Semioticians have long noted that the interpretation of signs can evolve and change. This process is captured by Roland Barthes's (2012) theory of the chain of signification, which unites signifier and signified into a sign. Figure 15 shows this process. In addition, Barthes distinguishes between first-order and second-order signification. A sign that is produced by first-order signification can be reduced to a signifying function when the denotative signified is no longer the core message of the sign, making the sign in its totality into an empty signifier. That signifier can then undergo a second-order signification, that is, it is bound to a new signified—often referred to as the connotative signified—to produce a new sign. The second-order semiotic system is staggered on the first-order semiotic system to represent the creation of myth, which moves the original sign into the realm of culture and ideology. The mythical signifier is different from the signifier in the first-order semiotic system in that it has duplicity—it is both a signifier, and thus a form that is used to signify other messages, and a sign with its original denotative meaning. The mythical signified is different from the signified in the first-order semiotic system insofar as a second-order, connotative concept, such as an ideological belief, is forced onto the original sign but relies on its denotative signified to appear natural and innocent (Barthes, 2012).

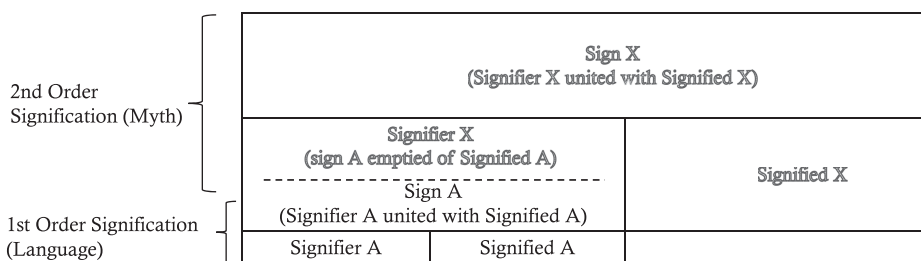


Figure 15: First-order and Second-order Signification.
Adapted from Barthes (2012)

An empty signifier without a specific signified is also known as a floating signifier. A floating signifier can be used as a vehicle for absorbing many meanings and can even be associated with contradictory messages that actors want to impose on it. For example, in his critique of the popular film *Jaws*, Jameson (1979: 142) notes that the shark represents ideas that range from “the psychoanalytic to historical anxieties about the Other that menaces American society—whether it be the Communist conspiracy or the Third World—and even to internal fears about the unreality of daily life in American today.” Jameson continues:

Now none of these readings can be said to be wrong or aberrant, but their very multiplicity suggests that the vocation of the symbol—the killer shark—lies less in any single message or meaning than in its very capacity to absorb and organize all of these quite distinct anxieties together. As a symbolic vehicle, then, the shark must be understood in terms of its essentially polysemous function rather than any particular content attributable to it by this or that spectator. Yet it is precisely this polysemousness which is profoundly ideological, insofar as it allows essentially social and historical anxieties to be folded back into apparently “natural” ones, to be both expressed and recontained in what looks like a conflict with other forms of biological existence.

The semiotic triangle can help untangle several forms of decoupling between rhetoric and reality. Conventional institutional theory has focused on the decoupling between signifiers and referents. However, as we can see from the semiotic triangle, these two rarely have any connection (Li, 2017). The more theoretically relevant forms of decoupling occur between signified and referent and between signifier and signified, which can become directly or indirectly connected based on conventions. So, for example, the concept of private equity in the US can be decoupled from the reality of private equity in China. The signifier *sunshine private fund* in Chinese may be decoupled from the concept of a transparent, positive, and risk-free investment vehicle. Decoupling between a signifier and its second-order signified is almost guaranteed because the second-order concept brings its own history and situation to the sign and thus reconstitutes the chain of signification. When a signifier becomes a floating signifier, it no longer has a fixed relation to any concept and can absorb any content. A floating signifier and its connotative signifieds are a form of myth. A myth enjoys wide acceptance and taken-for-grantedness. However, a myth is not necessarily linked to a fixed set of materialities. By definition, a myth is decoupled from the initial materiality associated with the signifier. In fact, re-connecting a myth with its supposed materiality can create significant epistemic distress for members of an organization (Hallett, 2010). Figure 16 shows the three forms of decoupling: between signifier and first-order signified, between signified and referent, and between signifier and the second-order signified.

Combining the semiotic triangle and the forms of decoupling between components of the semiotic triangle, Li (2017) distinguishes between denotational institutionalization and connotational institutionalization. Denotational institutionalization often occurs when a new practice becomes associated with a label and a first-order, denotative signified. As the sign is typified, objectified, and theorized, its repetitive enactment becomes taken for granted, which means that people regard the correspondence of the three components as tightly coupled and natural. Figure 17 represents the denotational coupling of a sign from microlevel action to macrolevel structure.

Connotational institutionalization happens when an institutionalized sign becomes emptied of its original, denotative signified, resulting in a “mere signifier” in the eyes of adopters. As Li (2017: 534–535) argues, “connotational institutionalization involves using imagined signifieds to reconstruct the semiotic triangle. When the new sign is widely accepted it becomes a mythical sign at the macro level that is comprised of a referent, a mythical signifier, and a connotative signified. Unlike the denotative

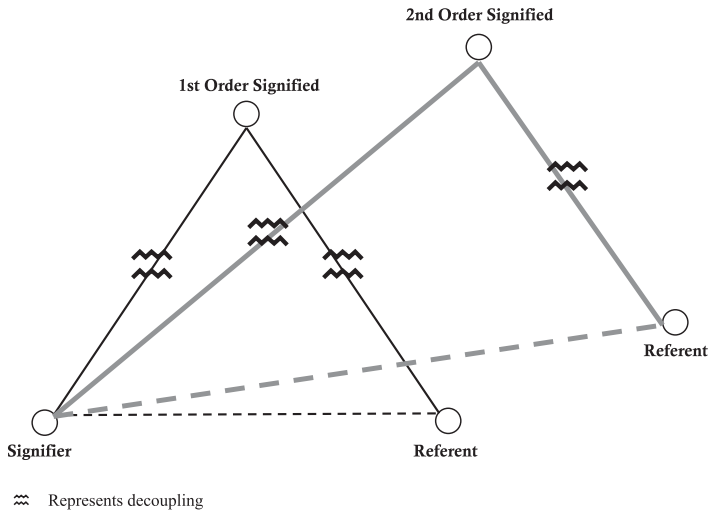


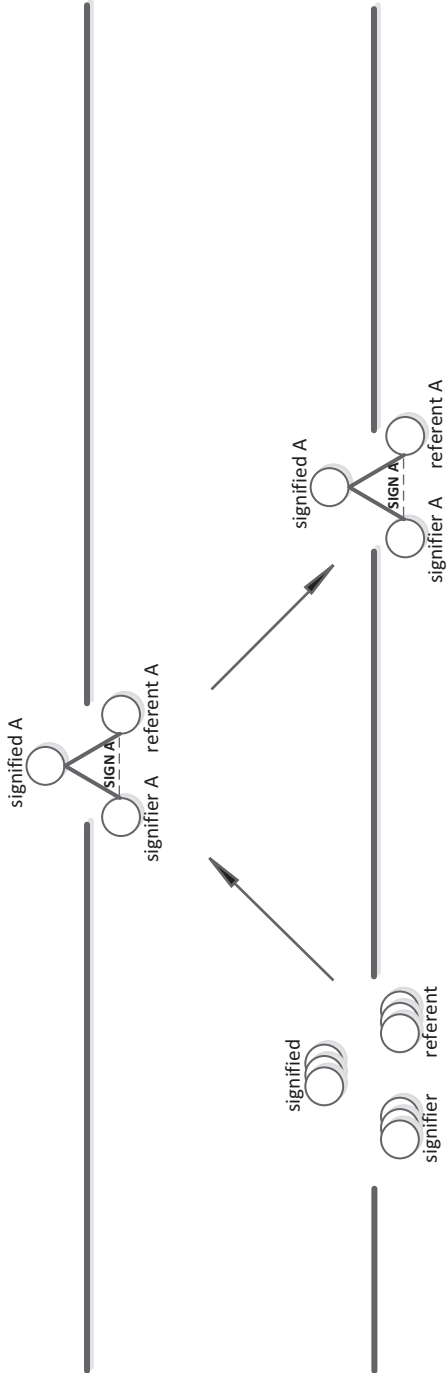
Figure 16: The Decoupling Between Signifier and Signified and Between Signified and Referent.

signified, which is well-theorized based on its connection with the referent, the connotative signified is always “imagined” because actors do not have direct access to the original referent and thus use their imagination, which is shaped by the social and cultural conventions of their own discursive community.

The second-order, connotative significance of the sign is only loosely coupled or decoupled with the original signifier. However, the denotative significance can be exploited by the new sign in the sense that the taken-for-grantedness of the denotative significance confers naturalness to the connotative significance, making it believable, appropriate, justifiable. The new sign is characterized by multi-dimensionality in significance and the complex relationship between denotations and connotations (Li, 2017). As shown in Figure 18, the emptied sign A becomes seen as signifier X at the micro level. As signifier X gets adopted and becomes a macrolevel sign, its three components become only loosely coupled. Importantly, this loosely coupled or decoupled sign can still become institutionalized, i.e., taken-for-granted: people recognize the dubious and complex nature of the sign and accept the decoupling between the label, the significance, and the material practices as normal and appropriate.

China’s private equity industry is an exemplar case for studying the creation and evolution of a dubious signifier and referent due to the multiplicity and indeterminacy of messages associated with it. As Li (2017) notes, the institutionalization process is full of heterogeneity that previous research has ignored. Such heterogeneity can be revealed when the evolutions of the three dimensions of the sign are explored separately, and the institutionalization of China’s private equity industry provides an opportunity to conduct such an exploration.

MACRO-LEVEL



MICRO-LEVEL

Figure 17: Denotational Institutionalization and Coupling.

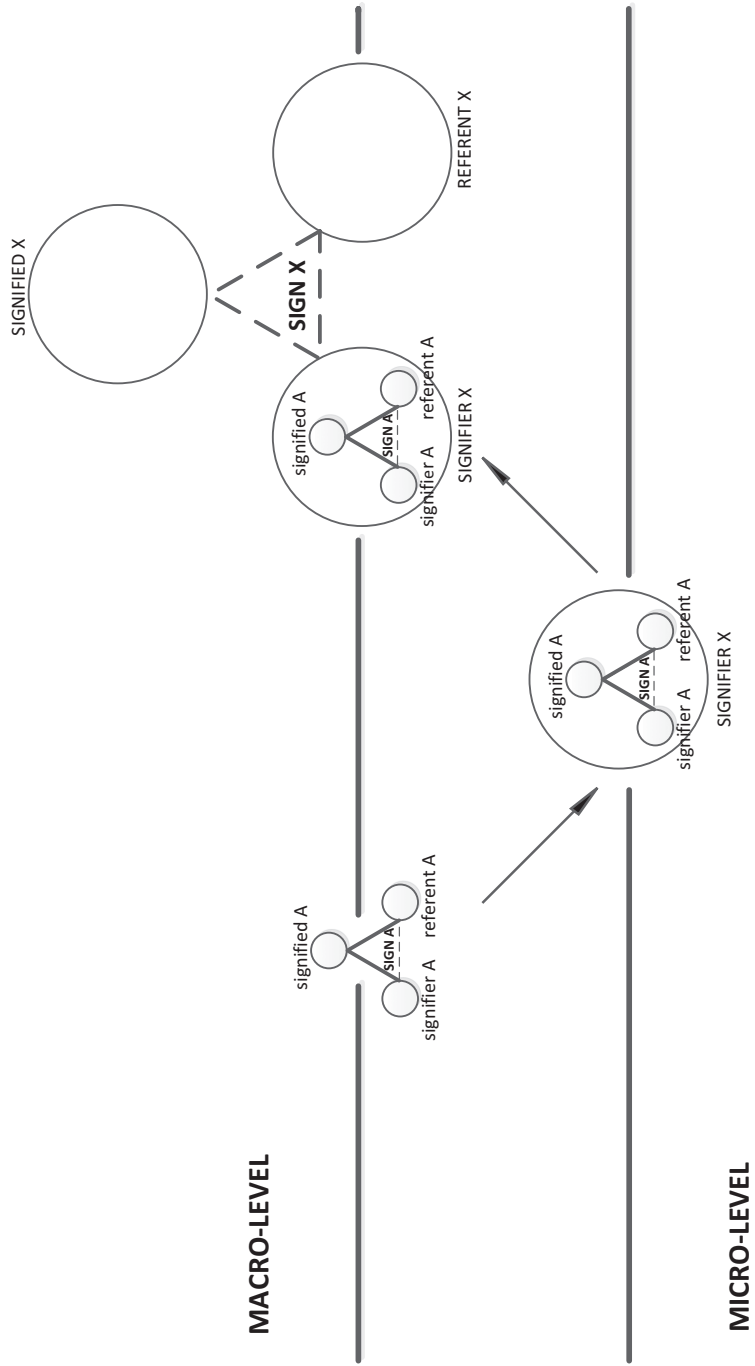


Figure 18: Connotational Institutionalization and Decoupling.

Method

I employ a case study approach (Yin, 2003) to extend the theory on institutionalization. Specifically, I combine an interpretive case study (Gioia, Corley, & Hamilton, 2012), which focuses on making sense of the case from the perspective of the participants, with discourse analysis (Fairhurst & Putnam, 2019), which aims to elucidate the role of texts in the construction of reality. The onto-epistemological orientations that inform my undertaking are constructivist and phenomenological, giving priority to both the subjective experience and the role of language in constituting knowledge and reality.

Research Setting

The origin of the private equity industry in China can be traced back to the mid-1980s, when the Central Committee of the CCP issued its 1985 “Resolution on Science and Technology Reform” that raised the possibility of supporting venture capital (VC) investment. In 1986, together with other departments, the Ministry of Science (with 40% of the shares) and the Ministry of Finance (with 23% of the shares) established the first VC entity—China New Technology Venture Investment—with US\$10 million in capital. The company worked with several international banks to establish China Asset Holding Ltd., which was the first Chinese VC firm to be listed on Hong Kong’s stock market, in 1991. In the early 1990s, the government established more VC firms to support high-tech industrial parks, which funded some tech ventures and projects. The first wave of investment occurred around 1992, when Deng Xiaoping re-affirmed China’s commitment to economic reform and opening the economy. Foreign capital investment worked mainly with various ministries in China and targeted SOEs. However, overseas listings were rare at that time, and listing on China’s stock market was subject to the restriction that not all shares were tradable. The difficulties of existing in the first place, together with the difficulties of navigating an environment with much administrative interference, led to the failure of the first wave of foreign private equity investment. By 1997, most such foreign private equity operations were withdrawn.

In the late 1990s, a professor who was also the vice chairman of the Chinese People’s Political Consultation Conference (CPPCC) proposed developing the Chinese VC industry at the 9th CPPCC National Committee meeting. The “Resolution on Strengthening Technological Innovation, Developing High Tech, and Accomplishing Industrialization” issued by the Central Committee of the CCP in 1999 and “Several Opinions on Establishing Our Country’s Venture Capital Mechanisms” issued by the government in 2000 provided the institutional framework and principles for developing the VC industry and led to the creation of many domestic VC firms sponsored by the government. In the late 1990s, Chinese VC firms expanded from 50 to more than 200, encouraged by the government’s positive signals and fueled by the dot-com boom in the US and the rapidly growing Internet industry in China (Yong, 2012). The private equity business model first

entered China in 1999, when the IFC (International Finance Corporation, a member of the World Bank Group) made an equity investment in the Bank of Shanghai for a 5% stake. It subsequently raised its stake to 7% in 2002. The Bank of Shanghai then attracted HSBC and another Hong Kong bank to acquire a combined equity stake of 11%, raising the total foreign shareholding in the bank to 18%. The IFC introduced best practices to improve the bank's corporate governance, management, and processes. However, despite the frenzy in the early 2000s, many private equity firms went bankrupt because they could not recoup their investments.

The year 2004 saw the rise of a third wave of private equity investment when the Small-and-Medium-Enterprise (SME) Board was established in Shenzhen, making it possible for private equity to exit through an IPO. Between 2004 and 2006, regulators finally eliminated the non-tradable share structure and made all shares of listed SOEs tradable. This reform of "fully tradable shares" also made it easier for private equity firms to use the secondary market as their exit option. The first landmark deal was an investment by Newbridge Capital (a subsidiary of TPG Capital) in the Shenzhen Development Bank (SDB) in June, 2004. SDB was one of the first publicly listed companies in Shenzhen's stock market when the market first opened in 1991. SDB had been a darling of the early investors and had grown rapidly since its IPO. However, along with other state banks, it was troubled by non-performing loans, and the government was struggling to save these banks (Yong, 2012). TPG invested US\$300 million to obtain a 16.76% stake in SDB. It gained management control of SDB, appointed new executives, and introduced new financial and banking practices. After turning the bank around, TPG sold its stake to China's Ping An Insurance Group in 2009 for US\$1.68 billion in cash and via a share swap, earning a 5.6-fold return on its investment. Although TPG's SDB deal was highly profitable, it evoked public resistance against selling state assets to foreign ownership, and the government subsequently stopped allowing foreign private equity firms to obtain a stake in China's SOEs.

Passage of the Partnership Enterprises Law in 2007 set the stage for the rapid expansion of the private equity industry. The partnership structure is commonly used for private equity firms in the West, and its establishment in China therefore provided the appropriate legal structure. According to Zero2IPO Research, there were about 1,000 private equity firms in China in 2010, and that number increased to 4,000 firms in 2020. Based on data from the Asset Management Association of China (AMAC), the registered private funds were worth RMB2.11 trillion in 2015, which increased to RMB20.39 trillion in July 2022, including 5.98 trillion in private securities, 10.97 trillion in private equity, and 2.7 trillion in VC funds. Figure 19 shows the number of private equity funds and venture capital funds, as well as the total amount of private equity funds and venture capital funds in recent years.

The establishment of new boards on the stock markets greatly expanded the exit options for private equity. The Shenzhen Stock Exchange created the SME (Small and Medium Enterprise) Board in 2004 and the GEM (Growth Enterprise Market) Board in 2009, the Shanghai Stock Exchange opened the STAR (Science and Technology Innovation Board) Market in 2019, and Beijing formalized the NEEQ (National Equities Ex-

change and Quotations, an OTC market) in 2013 and opened the Beijing Stock Exchange in 2021. In contrast to the main boards of the Shanghai Stock Exchange and the Shenzhen Stock Exchange, which primarily list SOEs, all of these new boards were created with the intention of listing private firms. Whereas earlier, Chinese private entrepreneurs had to seek IPOs overseas because they tended not to meet the stringent requirements of the domestic stock markets, now they could raise capital in several domestic stock exchanges. With the option of listing their invested firms not only in overseas stock markets but also domestically, private equity firms greatly expanded their reach. In 2021, out of 613 Chinese companies that went IPO, 415 were supported by PE/VC, representing a penetration rate of 68%. Among firms that listed on the STAR Market, 80% obtained capital from PE/VC.

The regulatory framework for the private equity industry in China has undergone many changes. In the early years, there was an ambiguity regarding whether the State Council or the China Securities Regulatory Commission (CSRC) should be the regulator. The AMAC was established as a not-for-profit trade association in 2012, and beginning in 2014, it assumed the registration and regulation of private equity firms.

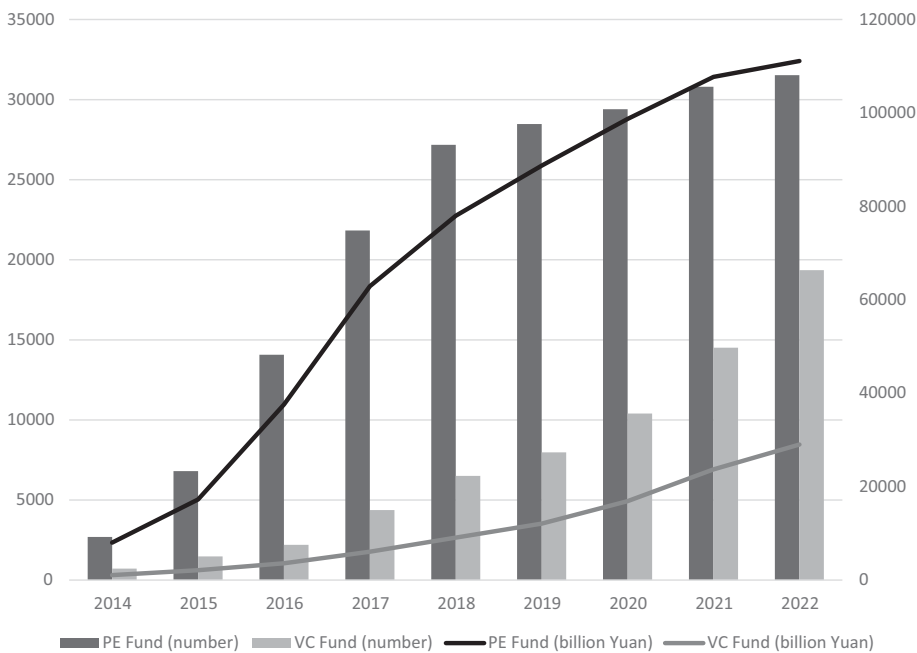


Figure 19: China's PE/VC Industry.

Source: Asset Management Association of China

Data and Analysis

I collected data on the rhetoric of private equity from several sources. The first set of data includes the rhetoric of the state, including the CCP's Party Congress reports, 5-year plans, Central Economic Work Conference reports, laws and regulations relevant to the private equity industry, and public speeches by regulators of the financial markets. Table 11 lists the main regulations relevant to the private equity industry. The second set of data comes from consulting companies that specialize in PE/VC and includes articles and research reports from ChinaVenture, FOFweekly, PEdaily, and Zero2IPO. The third set of data comes from various media and social media from the private equity industry. In the first step of the data analysis, I focus on periodizing the private equity industry's development and key concepts and themes associated with each period. Here I was sensitive to the controversies and significant events in the broader economic context that may have had an impact on the private equity industry. In the second step, I trace the evolution of meanings surrounding the key concepts to understand the coupling and decoupling of the three correlates of specific signs. I paid special attention to the differences in the rhetoric of various actors, e.g., the government, private firms in the private equity industry, and government LPs. Using the three sets of data helped triangulate the findings.

Table 11: Timeline for Regulations that Impacted Private Equity.

Year	Event
1991	Temporary Rules on High-tech Industrial Development Zone Policies. These include a provision to create venture capital funds to support the development of high-risk tech development.
1993	Discussion of draft of the Securities Law. Intended to include investment funds in the agenda.
1995–	Resolution on Accelerating Science and Technology Development.
1996	Resolution on Deepening the Institutional Reform of Science and Technology during the Ninth “Five-Year Plan.”
1998	Securities Law is approved. Investment funds are not included. Proposal to Rapidly Develop Venture Capital Business.
2001	The State Council rejects the draft of Administration of Industrial Investment Fund Provisions. Implementation of the Trust Law.
2003	Implementation of Administration of Foreign-Invested Venture Investment Enterprises Provisions. International venture capital firms, such as IDG and Sequoia Capital, enter China.
2004	TPG acquires 17.89 percent stake in Shenzhen Development Bank, a leading state-owned bank.
2005	The State Council issues Policy No. 75, which restricts the channel for overseas IPO exits for private equity firms. The Development and Reform Commission issues Policy No. 39 on Interim Measures for the Administration of Startup Investment Enterprises.

Table 11 (continued)

Year	Event
2006	Establishment of Bohai Industrial Investment Fund Management Co., Ltd., the first RMB private equity firm in China. Outline of National Medium and Long-term Science and Technology Development Plan (2006–2020).
2007	Implementation of revised Partnership Enterprise Law. Notice of the Ministry of Finance and State Administration of Taxation on the Relevant Tax Policies for the Development of Startup Investment Enterprises.
2008	Drafting of Administration of Private Equity Provisions. Guidance on the Establishment and Administration of Venture Capital Guidance Fund by National Development and Reform Commission (NDRC), Ministry of Finance, and Ministry of Commerce.
2009	NDRC submits Administration of Private Equity Provisions to the State Council for approval.
2011	NDRC issues Notice on Further Regulating the Development and Filing Management of Equity Investment Enterprises in Pilot Areas. NDRC issues Notice on Facilitating the Development of Equity Investment Enterprises, the first regulations on equity investment companies.
2012	The industry self-regulatory association Asset Management Association of China (AMAC) is established. The Securities Investment Fund Law is amended. Privately offered funds are included and legalized.
2013	The 3rd Plenary of the 18th CCP Congress issued the Resolution of the Central Committee of the CCP on Several Important Issues regarding the Comprehensive Deepening of Reform, known as the “60 Decision.” NDRC issues Notice on Further Betterment of the Filing Management of Equity Investment Enterprises. Notice on the Allocation of Management Responsibilities of Private Equity Funds: CSRC will be in charge of the supervision and management of private equity funds, and NDRC will be in charge of making the policies on the development of the private equity industry.
2014	The State Council issues Opinions on Further Promoting the Sound Development of Capital Markets. AMAC issues Notice on Measures for the Registration of Management Institutions of Privately Offered Investment Funds and the Recording of Funds (for Trial Implementation). CSRC issues Interim Measures for the Supervision and Management of Privately Offered Investment Funds.

Table 11 (continued)

Year	Event
2015	<p>“Mass entrepreneurship and mass innovation” (“双创”) is first promulgated.</p> <p>The State Council issues Opinions on Several Policies and Measures for Vigorously Advancing the Popular Entrepreneurship and Innovation.</p> <p>The State Council issues Opinions on Accelerating the Construction of Supporting Platforms for Popular Entrepreneurship and Innovation.</p> <p>The China Insurance Regulatory Commission issues Notice on Matters concerning the Formation of Privately Offered Insurance Funds.</p> <p>NDRC and the China Development Bank issue Notice on the Relevant Work concerning the Promotion of the Development of Financial Support for Public–Private Partnership.</p> <p>The Financial Market Department of the People’s Bank of China issues Notice on Matters concerning the Entry of Privately Offered Investment Funds into the Interbank Bond Market.</p>
2016	<p>The State Council issues Several Opinions on Promoting the Sustainable and Sound Development of Venture Capital, known as the “ten principles of venture capital” (“创投国十条”).</p> <p>NDRC Issues the Interim Measures for the Administration of Government-Sponsored Industry Investment Funds.</p> <p>The Ministry of Finance issues Notice on the Interim Measures for the Administration of Government Investment Funds.</p> <p>The Securities Association of China issues Notice on Promulgating the Administrative Rules for Privately Offered Investment Fund Subsidiaries of Securities Companies and the Administrative Rules for Alternative Investment Subsidiaries of Securities Companies.</p> <p>AMAC issues Announcement on Several Issues in Further Regulating the Registration of Privately Offered Fund Management Institutions, known as the “February 5 Announcement.” This marks the beginning of AMAC’s active regulation of the private equity industry.</p>
2017	<p>The State Administration of Taxation announces Issues concerning the Pilot Tax Policies for Venture Capital Enterprises and Individual Angel Investors.</p> <p>The Legislative Affairs Office of the State Council issues Notice on Requesting Public Comments on the Interim Regulation of the Administration of Private Equity Investment Funds (consultation paper).</p> <p>The State Council issues Notice on Regulating and Developing Regional Equity Markets.</p> <p>AMAC issues Questions and Answers regarding Private Fund Registration and Recording (XIV).</p>

Table 11 (continued)

Year	Event
2018	<p>The State Council issues Opinions on Promoting the High-Quality Development of Innovation and Entrepreneurship and Creating an Upgraded Version of “Entrepreneurship and Innovation Among All the People.”</p> <p>The People's Bank of China, the China Banking and Insurance Regulatory Commission, the China Securities Regulatory Commission, and the State Administration of Foreign Exchange issue Guiding Opinions on Regulating the Asset Management (“资管新规”) Business of Financial Institutions, known as “New Regulations on Asset Management.”</p> <p>The People's Bank of China issues Notice Further Clarifying the Matters Related to the Guiding Opinions for Regulating the Asset Management Business of Financial Institutions.</p> <p>CSRC issues announcement on Operating Guidelines for the Application of the Guiding Opinions on Regulating the Asset Management Business of Financial Institutions to the Massive Collective Asset Management Business of Securities Companies.</p> <p>The People's Bank of China together with other ministries determines that the “New Regulations on Asset Management” will have a transition period and that the transition will last until the end of 2021.</p> <p>AMAC issues Guidelines for the Valuation of Unlisted Equity Investment of Privately Offered Investment Funds (for Trial Implementation).</p> <p>Notice of China Securities Depository and Clearing Corporation Limited on Matters concerning the Strengthening of the Management of the Accounts of Privately Offered Investment Funds and Other Products.</p>
2019	Instructions for Filing Private Equity Investment Funds.
2020	CSRC announces Several Provisions for Strengthening the Regulation of Privately Offered Investment Funds.
2021	<p>The China Banking and Insurance Regulatory Commission issues Notice Regarding Matters Concerning the Procedural Registration of Asset-backed Plans and Private Insurance Funds.</p> <p>The Asset Management Association of China issues Notice on Strengthening the Self-Regulatory Management of Private Fund Information Submission and Optimizing Industry Services.</p>
2023	<p>Administrative Provisions on the Operation of Private Asset Management Plans of Securities and Futures Broker–Dealers (2023 Revision).</p> <p>The Registration-Based IPO system was formally implemented in the Shanghai Stock Exchange.</p>

Based on Yong (2012), reports from PEdaily, Asset Management Association of China, and other online sources

Findings: The Institutionalization of China's Private Equity Industry

The development of the private equity industry involved two institutionalization processes. The first-order institutionalization process began when private equity emerged out of a chaotic early period that had few rules and little regulation. Chinese private equity actors, including regulators, used the Western model to benchmark China's pri-

vate equity practices and structure. Major Western private equity firms participated in the market, and there was significant growth of domestic private equity firms. Wealthy entrepreneurs became interested in this alternative investment option and provided most of the funds. Private entrepreneurship became increasingly popular, and private enterprises began to rival some of the largest SOEs and to establish their brands on the world stage. It looked like China's private equity was going to take a much shorter time to achieve what the US had taken several decades to achieve.

However, more recently, the industry has been undergoing a second-order institutionalization process. Although China's stock market has become increasingly accepting of private firms by opening new boards and stock exchanges that attract SMEs, replacing the "qualification examination system" with the "registration system" in the IPO process, and encouraging the growth of domestic private equity firms, counter movements have also gained steam, such as cracking down on the fintech industry, the edtech industry, and giant private tech companies such as Alibaba and Tencent. Significant changes such as the dominance of government-backed funds seem to be leading China's private equity along a divergent path with the signifier, signified, and referents becoming decoupled. New meanings are rapidly being formed, which is transforming the industry.

First-order Institutionalization of the Private Equity Industry: 2000–2015

The first-order institutionalization process was characterized by exploration and gradual coupling of the signifiers, signifieds, and materiality. Foreign entities and private equity firms first introduced the concepts to China through the IFC buying an equity stake in the Bank of Shanghai in 1999 and Newbridge Capital's equity investment in Shenzhen Development Bank in 2004. Legal and administrative barriers, together with the populist protectionist sentiment, thwarted the ambitions of foreign firms in the early years. But subsequent efforts brought the industry into greater alignment with the Western model, such as revising the Partnership Enterprise Law, establishing the non-profit organization Asset Management Association of China as the industry self-regulatory association, opening up new boards on the stock markets for SMEs and high-tech companies, and introducing policies for supporting innovation and entrepreneurship at the grassroots level.

The Government's Role and the Legal Framework

Like the adoption of market-based structures and practices in other sectors, China's private equity industry began with the Western model in mind. One of the central topics in the early 2000s was the relationship between the government and the market. At the time, regulators were clearly inclined to adopt the Western model. For example, Wu Xiaoling, vice chairman of China's central bank, the People's Bank of

China, rejected too much interference by the government in a speech delivered at a conference on the Chinese private equity market in 2006. She said:

Private equity funds raise money from the wealthy and invest them in the equity of non-public firms. The current civil and corporate law frameworks can completely constrain the relationship of the three parties. I personally don't think there is a need to impose special restrictions.

This sentiment was supported by many liberal-minded economists. For example, Wu Jinglian pointed out in 2002:

In the recent hype about venture capital investments, some have proposed a method for government agencies to use people's savings in banks to make venture capital investments. Many people misunderstood the difficulties of establishing venture capital investments, thinking that the problem is that governments have not provided enough money. But the critical issue is not about having investment money; it is about what kind of institution we are to rely on to make investments. The main problem is not money, or the people, but fundamental flaws in the mechanisms for raising and investing capital. Venture capital is characterized by high risk and high return, and if the institutional arrangement for venture capital cannot guarantee the operating partners' personal responsibilities and returns, it is very difficult to be successful.

At the time, in both the scholarly and the legislative arena, the idea of a “government guidance” fund was controversial. Liberal-minded reformers and legislatures advocated for less governmental intervention. For example, a vice chairman of the Finance and Economics Committee of the National People's Congress Standing Committee noted that the regulation issued by government agencies on venture capital investment was contrary to WTO provisions, and pointed out that

According to relevant terms in the WTO, government funds can only directly support technological innovations of products before the products enter the competitive market. In general, government cannot provide funds for the later stage of a company's venture or during its growth period.

The West is often referenced as a benchmark in discussions about Chinese private equity. For example, regulators have spoken about establishing agencies for the registration and custody of equity ownerships similar to those in Western capital markets, with requirements for the amount of assets of limited partners similar to those in the US, instituting similar tax regimes in the partner model to reduce double taxation, as the US does, and building multiple stock markets and OTC markets so that private equity funded firms do not have to go overseas for an IPO.

There has also been extensive theorization to distinguish the various concepts that could be confusing to Chinese market actors. For example, in a speech to the Economists 50 Forum in 2006, Wu Xiaoling noted:

We should treat private securities funds and private equity differently. Now there is a lot of discussion about private securities funds that invest in the secondary market. These two are different in the capital market, and we should distinguish them. Private securities funds mainly invest in the secondary market, and they include hedge funds. Because they invest in publicly listed

securities, they play a relatively large role in the secondary market. But they had a bad reputation in China because many private funds manipulated stock prices in the past and even today. Internationally, since hedge funds had a significant impact on the secondary market and didn't play a good role during the Asian financial crisis, their reputation is not good either. Now many ask for the regulation of hedge funds. The bad reputation of private funds is becoming a drag on the reputation of private equity funds.

The passage of the revised Partnership Enterprise Law in 2007 and the enthusiasm around its implementation further show that the first-order institutionalization process was about the Chinese private equity industry becoming more like the Western private equity industry. In Wu Xiaoling's speech to the Economists 50 Forum in 2006, she said:

The issues raised in my talk and my research most likely already have answers and mature practices in countries with mature market economies. But in China, a transition economy, we have to talk about many issues starting from the basics of the ABCs. After all, China's economic reform is about implementing the general principles of a market economy combined with China's concrete conditions. . . . Today is the first research conference after the issuance of the Partnership Enterprise Law. I think this is very significant, because the Partnership Enterprise Law provides a very good legal foundation for the development of private funds.

The revised Partnership Enterprise Law eliminated some of the problems in the 1997 version of that law and introduced many positive changes. The old law defined partners only as natural persons, not legal persons or other organizations. It required partnership enterprises to file corporate taxes in addition to requiring the partners to file income taxes. It also did not recognize limited liability partnerships, and therefore all partners had to bear unlimited liabilities. All of these requirements are inconsistent with the common corporate and taxation structures of private equity firms in the West and impeded the founding of private equity firms in China.

The revised law allows legal persons and other organizations to be partners. Although SOEs, publicly listed companies, and public welfare institutions cannot be GPs, they are not forbidden to be LPs under the new law. Also, the partnership enterprise is exempt from taxation, thus greatly reducing the tax burden of partners. The most important breakthrough of the new law is that it legalizes LP enterprises, which consist of 2 to 50 partners of which at least one must be a GP. The liability of LPs with respect to debt obligations is limited to the amount of capital they have invested in the enterprise. All of these changes made China's legal structure more in line with that of the US and are conducive to the establishment and operation of Chinese private equity firms. Although there were domestic private equity firms before this law was established, they were set up as either a trust or a corporation and did not have the flexibility, low taxation, and limited liability of partners. The first limited partnership private equity fund based on the new law was established in June 2007 in Shenzhen.

The new law was hailed as a great turning point for the development of the private equity industry. Before this law, Chinese private funds had been regarded as a form of underground finance. There were attempts to use the partnership structure, and some

set up an entity overseas and then used it to invest in the domestic market. But most private equity firms were foreign firms, and most funds were USD-denominated funds. Domestic private equity funds had been established as trusts, limited liability companies, and investment management agreements and holding companies. With the new partnership structure, domestic private equity firms and funds denominated in RMB grew rapidly. Newly founded funds peaked in 2010–2012. Much talent from investment banking, big four accounting firms, and consulting joined the industry. In 2012, the AMAC was established as a non-profit self-regulatory association for asset management industries. The private equity industry was moved to the purview of the AMAC, which marked the formal establishment of the industry. The AMAC was modeled after Western self-regulatory associations, and has been actively promulgating rules, establishing norms and standards, conducting examinations, disciplining violations, and providing education and training

The Macrolevel Discourse on Innovation and Entrepreneurship

Large private corporations, family businesses, and ultra-high net worth individuals became interested in this alternative form of investment. China's ultra-wealthy population has rapidly expanded over the years, making China the country with the second largest number of people whose wealth is greater than US\$50 million. In 2022, China's ultra-wealthy population reached the historic number of more than 32,000, trailing behind the number of more than 141,000 in the US.

Many experts and regulators strongly promoted the development of private equity, noting its critical role in a company's founding, growth, and expansion stages of development, as well as the direct and positive impact of private equity on the real economy. In the government's rhetoric, the development of the private equity industry was critical for innovation and entrepreneurship, especially for SMEs, which are predominately private enterprises. In 2015, the government advocated for "mass entrepreneurship, mass innovation," dubbed as "shuangchuang" ("双创"), further solidifying its support for private SMEs. One of the biggest challenges faced by SMEs in China is the difficulty of obtaining loans from banks, because state-owned banks tend to give loans only to SOEs. Many private entrepreneurs turned to shark lending and shadow banking to obtain financing. The government recognized that in this context, a well-developed private equity industry could bring the necessary funds to those that were the most in need, stimulating a healthy development of the national economy.

The establishment of the SME Board in 2004 and the ChiNext Board in 2009 were concrete practices that aligned the private equity industry more with the Western model. Unlike the main boards in Shenzhen and Shanghai, which predominantly listed SOEs at the time, these new boards were friendly to private enterprises and provided the necessary exit option for private equity investment. Publicly listed companies in China grew from 1,600 in 2008 to close to 5,000 in 2022, fueled by the private companies' IPO. The availability of exit options further stimulated the growth of the

private equity industry, especially RMB-denominated funds, because firms did not have to go overseas for IPOs. Private equity has also become more involved in mergers and acquisitions, an increasingly active market.

Many Chinese Internet companies, such as Sina, NetEase, Baidu, Sohu, 51job, Ctrip, and New Oriental, obtained foreign venture capital and private equity funding and went IPO in the US in the 2000s. Among these companies, Alibaba's IPO in 2014 was the largest for a Chinese company and in US history. Before its IPO on the New York Stock Exchange, Alibaba had many rounds of capital infusion, and its main shareholders evolved over the years. Alibaba was founded by Jack Ma and his partners in 1999. They raised many rounds of venture capital and private equity funding that propelled the company to meteoric growth. Their first round of funding was US\$5 million from Goldman Sachs, the Swedish Wallenberg family's Investor AB, and Singapore's Venture TDF in 1999. That same year, they obtained a second round of funding in the amount of US\$25 million from Softbank along with the existing venture capital investors. The third round, which involved Fidelity, raised US\$82 million. For the fourth round, Yahoo! invested US\$1 billion to obtain 39% of the company, becoming the largest shareholder. In 2007, Alibaba went IPO in Hong Kong, raising a total of US\$1.5 billion, based on a market valuation of US\$28 billion. In 2012, the company delisted from the Hong Kong stock market to go private. It then bought back half of the shares that were owned by Yahoo!, reestablishing Jack Ma's control over the board. In its sixth round of funding in 2011, Alibaba raised US\$2 billion from America's Silver Lake, Russia's DST Global, Singapore's Temasek, and Yunfeng Capital, a new domestic private equity firm founded by Jack Ma and David Yu, founder of Target Media. In 2012, Alibaba raised US\$4.3 billion in funding, led by domestic private equity firms that had SOE backgrounds, such as China Investment Corporation, CITIC Capital, Boyu Capital, and China Development Bank Capital. It is interesting that the equity holders transitioned early on from well-established foreign firms to domestic private equity investors, and then to state-backed domestic capital. In 2017, Alibaba had a market capitalization of US\$442 billion, surpassing Amazon as the largest e-commerce company in the world at the time.

In summary, despite the fact that the Partnership Enterprise Law still lacks the sophistication and variety of partnership structures that are found in the US, and despite the fact that an IPO in China was still difficult because the requirements are stringent and often unmet by SMEs, the Chinese private equity industry experienced several rapid growth peaks, such as between 2009 and 2010, and again between 2015 and 2017. More conducive legal and tax structures, the creation of exit options for public listing of SMEs, and the growing wealth of Chinese executives and family businesses drove this growth. Although private equity in China is still different from that in the US in terms of lacking institutional investors and being too concentrated in the IPO market, in many respects, the Chinese private equity industry looked more and more like the U.S. private equity industry with similar functions and purposes.

Second-order Institutionalization of the Private Equity Industry: 2012–2023

Fundamental Shifts in the Materiality of the Industry

In the early 2010s, while the first-order institutionalization was still very much in full swing, a different process began. This process has significantly changed the nature of the actors, goals, relationships, and rules of the game in the Chinese private equity industry.

The first fundamental shift was from USD-denominated funds to RMB-denominated funds. As mentioned in the discussion of the first-order institutionalization process, the Partnership Enterprise Law greatly stimulated the growth of RMB funds because of its favorable tax structure, liability terms, and clarity regarding the responsibilities of the partners. Factors at the macro level also contributed to the growth of RMB-denominated funds, including the global financial crisis of 2008, which the Chinese government had to counter with the largest stimulus package in the world, and the depreciation of the U.S. dollar, which caused sustained capital losses in China's foreign reserves. The Chinese developed a sense that the U.S. financial system and the U.S. dollar were volatile and not as strong as they once looked. Hence, China looked to develop a more sophisticated capital market and began looking for ways to replace the inflow of foreign capital with money raised domestically. USD-denominated funds decreased from \$39.8 billion in 2008 to merely \$4.2 billion in 2009, and the number of new USD funds decreased from 50 in 2007 to 9 in 2009. At the same time, RMB-denominated funds increased from merely \$0.9 billion in 2007 to \$10.7 billion in 2010, and the number of new RMB funds increased from 3 in 2006 to 71 in 2010.

The second fundamental shift was from private domestic capital to government-backed investment capital. For the first-order institutionalization, the main role of the government was to establish the legal and regulatory framework for the industry. The government's direct investment in firms beyond the product R&D stage was considered by some economists and lawmakers as contrary to the WTO provisions and by implication not conducive to market competition. Consistent with that belief, in their early period, RMB-denominated funds came mostly from private sources such as private entrepreneurs and ultra-high net worth individuals. However, beginning in 2014 and 2015, government guidance funds replaced private sources to become the main driver of growth.

Government guidance funds are RMB funds set up by central, provincial, city, or even county or district governments. According to data from CVSource, in 2011, there were 26 government guidance funds, totaling RMB327 billion; in 2015, the number went up to 222 funds with RMB7,821 billion, and in 2016, to 444 funds with RMB12,853 billion. By 2022, there were 1,531 government guidance funds with RMB27,378 billion. Between 2013 and 2022, the compound growth rate of the number of government guidance funds was 24.5%, and the compound growth rate of the overall size of the funds was 44.34%. Moreover, government guidance funds now dominate the funds with the largest

amount of capital. For example, government guidance funds account for 94% of funds with at least RMB100 billion, 60% of funds with RMB50–100 billion, and 72% of funds with RMB30–50 billion. It is only among small funds that are less than RMB1 billion that more are from private sources.

Questioning Private Property in Macro-level Discourse

Second-order institutionalization is characterized by the process of infusing new messages for established signs. In China, this process occurred at multiple levels. At the societal level, controversies about how to treat private property and private enterprises added uncertainty for the private sector and anxiety for private entrepreneurs. At the industry level, the directions of the government became more influential in determining which industries were hot and thus worthy of investment. At the organizational level, LPs that have government backgrounds had displayed a very different set of goals and priorities and thus posed new challenges to the market operations of private equity firms and the relationship between LPs and GPs.

The rhetoric at the societal level is ambivalent when it comes to support for private businesses. In 2012, the 18th National Congress of the CCP affirmed the importance of market reform, and said “use greater political courage and wisdom, deepen the reform in important areas without missing opportune moments.” In 2013, the third plenary of the 18th CCP Congress issued the Resolution of the Central Committee of the CCP on Several Important Issues regarding the Comprehensive Deepening of Reform, now known as the “60 Decisions.” The resolution determined that the central issue of economic reform was to properly handle “the relationship between the government and the market, so that the market plays a decisive role in resource allocation and the government can play a better role.” At the time, whether China would be stuck in the “middle-income trap” was a hot topic and was on the mind of the top leadership. It was widely recognized that the low-hanging fruits of the economic reform had been harvested and that reform must move into the more difficult domains. President Xi Jinping appointed Liu He, a well-established economist who is a proponent of marketization, to lead the economic reform. However, Liu’s bold attempts at reform tended to trigger instability and backlash, and in response to these mini-crises that could turn into larger crises, the CCP resorted to tightening the central control, which would result in a more powerful government and less liberalized markets (Rosen, 2021). This pattern was repeated in many sectors, such as interbank borrowing, outbound investment, local government debt, corporate governance, the equity market, interest rates on bank deposits and loans, and fintech. The bold rhetoric of reform and the simultaneous centralization of control sent mixed signals to private entrepreneurs.

Along with the resistance to reform by powerful state banks, local governments, SOEs, and financial institutions came a pushback in the ideological realm. For example, in January 2018, Zhou Xincheng, a senior professor at Renmin University, published an

article titled “Communists Can Summarize Their Theory in One Phrase: Eliminate Private Property—Commemorating the 170th Anniversary of the *Communist Manifesto*.” The 10,000-word article argues that the development of multiple forms of enterprise ownership in the economy was a special phenomenon of the primary stage of socialism, and that it could not be solidified and become permanent. It proclaimed that every practical measure that was taken should be directed toward the communist goal of the gradual elimination of private property. It declared that a communist must not forget but must remember well that the elimination of private property and the establishment of public property were the original aspiration and mission, and forgetting this fact would amount to betrayal, so that one would no longer be a communist. The article named a few well-known liberal-minded economists such as Wu Jinglian and Zhang Wuchang and denounced them for being neoliberal, anti-CCP, and anti-socialist. The article also refuted some Chinese scholars who justified private ownership as something that is permitted by Marxism because the original word used by Marx should have been translated as “sublation” and not “elimination” of private property.

Hu Deping was one of the individuals who employed this last argument. Hu was the son of Hu Yaobang, a liberal reformer who was the General Secretary of the CCP from 1982 to 1987. He was a scholar and a member of several political bodies, such as the United Front Work Department of the CCP, an organization that works with non-CCP elites, the National People's Congress, and the Committee of the Chinese People's Political Consultative Conference. In a forum on innovation in 2016, Hu Deping delivered a speech titled “Don't ‘Eliminate’ Private Ownership, ‘Sublate’ Private Ownership.” He said:

Almost 40 years of reform and opening-up has made our private enterprises a significant part of our country's foundational economic system and market economy. The degree of reform is not small, and the opening-up is not insignificant. But are there any problems in the development of our country's private sector? I think there is an issue that is deep in people's hearts that has not been clearly explained. That is, what exactly is the basic attitude toward our country's current private ownership system by Marxism and the communist party? Else why are private enterprises still on tenterhooks after being reassured of a peace of mind for almost forty years?

Hu's observation about private entrepreneurs' state of mind was astute. No matter how much the CCP emphasized its commitment to economic reform in its official reports, when the discourse about eliminating private ownership dominated the public discourse, it made private entrepreneurs feel that the market environment could turn unfriendly and that the future was uncertain.

Zhou's viewpoints are not new but are representative of the viewpoints of the Old Left. Similar charges that economic reforms and marketization were anti-Marxist had regularly appeared in the public discourse throughout the years. In the late 1980s and early 1990s, one of the greatest public controversies revolved around whether the “surname” of the market was capitalism or socialism. That controversy was put to an end by Deng Xiaoping, who in 1992 declared “don't debate” and “whoever does not reform will be let go.” However, extremely leftist thoughts would occasionally emerge

in the 1990s, and they became more pronounced in the 2000s as the ever-increasing wealth gap led to inequality and social unrest. Leftist thoughts were taken more seriously and began to impact policy making since the administration of Hu Jintao-Wen Jiabao. For example, economist Lang Xianping's 2004 criticism of private entrepreneurs misappropriating state assets led to the immediate halt of management buyout. In 2005, law professor Gong Xiantian wrote an open letter to the National People's Congress to challenge the constitutionality of the draft of the Property Law. He denounced the equal protection of state, collective, and individual property as violating the constitution and pointed out that the nature of the law was that it protected some individuals to embezzle state assets using unlawful means. Gong's challenge directly caused the delay of the submission of the draft to the National People's Congress.

That Zhou's article was published by an online subsidiary magazine of the CCP Central Committee's leading journal on theory, *Seeking Truth*, is surprising to many. While the CCP had been consistently advocating for deeper market reform, publishing a significant piece like Zhou's sent the complete opposite message. It was especially astonishing to the private sector that an extremely leftist thought piece would appear in such a high-level CCP theory journal in 2018, 40 years after the CCP's initial commitment to economic reform. Many private entrepreneurs had assumed that the power of these controversies was a thing of the past by the late 2010s. The idea that China would continue and deepen economic reform had become taken for granted by a lot of liberal-minded market actors after four decades of economic reform.

Another high-profile public controversy occurred in September 2018, when a practitioner in finance, Wu Xiaoping, published an online piece on social media titled "The Private Ownership Economy Has Finished Assisting the Public Ownership Economy and Should Gradually Leave the Scene." Wu claimed that the mission of private enterprises was to help public enterprises to leap forward, and it had basically accomplished this mission. The article proclaimed that private enterprises should not be blindly expanded, and that an entirely new form that mixed public and private ownership and that was more centralized, more united, and larger in scope would replace private ownership to play a more significant role in the new development of the socialist market economy. The article quickly generated numerous views. Unlike the support that the party media provided for Professor Zhou, this time the party media responded decisively to rebut this opinion. *Economics Daily* published an editorial the same day that was titled "*Economics Daily* Refutes 'On the Private Ownership Economy Leaving the Scene': We Must Be Highly Vigilant Toward This Kind of Bizarre Opinion That Confuses and Poisons People's Minds." The article described Wu's ideas as anti-reform and a dangerous attempt to turn back the wheel of history. *People's Daily* published an article titled "Steadfastly Make the Private Ownership Economy Better." It recognized that after 40 years of economic reform, private economy accounted for more than 60% of the GDP, paid more than 50% of the taxes, contributed more than 70% of the technological innovation and new product development, and provided more than 80% of all jobs. The article reaffirmed that the private ownership

economy was not an assistant to or dependent upon the public ownership economy, but rather an important component of the socialist market economy and a significant foundation for China's economic and social development.

Consistent with the messages sent by *People's Daily*, *Economics Daily*, and other major media outlets owned by the CCP and government agencies, party officials began to reassure their audience regarding the determination of the CCP to develop a market economy and protect private entrepreneurs. However, economic reform and further marketization had become such an unalterable fact to private entrepreneurs that they were alert when party leaders explicitly emphasized this topic in their speeches. To private entrepreneurs, it was abnormal to say that "China will insist on building a market economy, and China will not go back" when these were already taken-for-granted facts. In other words, attempts at reassurance triggered increased uncertainty and anxiety about the party's attitudes toward private ownership and private businesses.

Another reason that the high-minded sounding refutations of Wu's points were not enough to dispel the doubts of private entrepreneurs was the messages sent by the policies and practices of the regulators. In addition to the reform measures that the top leaders implemented that inadvertently caused more centralized control, the regulators' attempts to better monitor financial institutions' asset management to protect investors and enhance the quality of general partners could also lead to outcomes that dampened the vitality of the private equity industry. Between 2015 and 2016, the private sector made triumphant advances that greatly expanded its capital financing, and some companies invested the capital in real estate and other investments. In 2017, the de-leveraging policy from the top to rein in shadow banking had the unintended consequence of making it harder for private businesses to borrow money. The financial institutions were shocked by the policy and stopped lending to private businesses because lending to SOEs always entailed less risks. In 2018, the central bank issued the "Guiding Opinions for Regulating the Asset Management Business of Financial Institutions," dubbed as the "New Regulations of Asset Regulations" (资管新规). The greatest effect of the new rules on the private equity industry was that they reduced the availability of funds by placing more restrictions on banks' wealth management funds, private equity leverage, and other operations that had earlier allowed private equity more flexibility.

Encouraged by the "60 Decisions" in 2013 and the campaign of "mass entrepreneurship, mass innovation" in 2014, private entrepreneurs were actively expanding their businesses and setting up new ventures. From 2014 to 2019, the number of individual and private enterprises almost doubled to 118 million. More private capital also went into the private equity industry. However, the changes in the regulatory environment, along with ultra-leftist voices appearing in party-sponsored magazines and social media, sowed uncertainty and doubt in private entrepreneurs' confidence in the market environment.

From State-owned Assets to State-owned Capital and State-owned Equity

At the industry level, the government played a more active role in defining the role of state-owned capital and how state-owned capital participated in the economic system. The active role of the government as an investor began at the top level of the government as China established its sovereign wealth fund China Investment Corporation (CIC). In 2007, the newly established CIC paid US\$3 billion for an almost 10% stake in Blackstone, which was seeking an IPO in the US. Although large private equity firms such as the Carlyle Group, KKR, and Blackstone had entered China in the 1990s, they were not well known and were generally not very successful. The CIC deal quickly popularized the idea of private equity and its business model. It also familiarized people with the power of state-owned capital, as this was the first time that China invested its foreign reserves in alternatives other than buying U.S. treasury bonds.

The 2013 “60 Decisions” noted that strengthening the monitoring of state-owned assets required a focus on monitoring state-owned capital, which entailed the establishment of two new organizational forms based on the restructuring of SOEs: “state-owned capital operations corporations” to reform the management of state-owned capital and “state-owned capital investment corporations” as equity investors. In subsequent years, the CCP and the State Council issued much guidance and many guidelines on how to reform the management, trading, registration, and delegation of state-owned assets and state-owned capital, how the SASAC should change its role from managing SOEs to managing state-owned capital, how to register the state-owned equity of limited partnership enterprises, and how to position and develop the two new organizational forms.

These measures reflected the CCP’s increasing awareness that the will of the CCP need not be embodied only in the control and management of SOEs; it could also be embodied in the management of state-owned capital, which could take the form of equity ownership of private businesses through private equity investment. This change was fundamental. In the early period of the economic reform, when the government set up VC funds to support private enterprises, those funds were primarily aimed at stimulating private entrepreneurs to grow and innovate. In the more recent decade of the reform, however, the government had gained a new understanding of what it owned and how to own it. Instead of directly managing SOEs in the central planning days, the government first separated ownership from management, and then it realized that owning capital was more flexible than owning assets and began to participate in the financial system as an active, and soon the most powerful, market actor. Put simply, the government transformed from the role of an “administrator” of SOEs to an “owner” of state-owned assets and an “equity investor” of state-owned capital. The newly minted state-owned capital investment corporations played important roles in restructuring entire industries. For example, China Baowu Steel Group, an SOE formed by the merger of Baosteel Group and Wuhan Iron and Steel Corporation in 2016, became a pilot state-capital investment corporation after its founding. In 2019, Baowu restructured Ma Steel

Group, and in 2020, it acquired Sinosteel and a few other iron and steel corporations in China and became the largest steel manufacturer in the world.

The Multiple Goals of the New Limited Partners

The transformation of the operations of state-owned capital had direct impacts on the nature of LPs in the private equity industry and the relationship between LPs and GPs. In the West, LPs are typically public pensions, endowments, insurance companies, and other institutional investors. In China, LPs were dominated by private companies and wealthy families and individuals during the first-order institutionalization stage, but the private sources of funds have been replaced by government-backed funds in recent years.

A report by FOFWeekly in February 2023 asks, “Where is the most active money in China?” It observes that LPs have become differentiated since 2018. Specifically, it delineates five different types of LPs: policy LPs (guidance funds from different levels of governments, funds from government agencies and governments), industrial LPs (funds of funds by state-owned capital, funds from publicly listed companies, funds from non-publicly listed companies), public benefit LPs (funds from social security, charity, social organizations, university endowments), private finance LPs (funds of funds by the private sector, investment companies, limited partnerships, family businesses), and financial institution LPs (VCs, investment banks, trusts, asset management companies). According to the report, the different types of LPs were roughly equal in 2014 in terms of the amount of funds they provided. However, financial institution LPs began to decline significantly since the issuance of the “New Regulations of Asset Management” in 2018. In 2022, policy LPs accounted for 50% of all funds raised, and financial institutional LPs and private finance LPs each only contributed a bit more than 10%. Figure 20 charts the changing percentages of funds from the different LPs between 2014–2022.

Due to the imbalance between the state and private capital invested in the PE industry, the report concludes that the problem of a structural mismatch is increasingly significant. Policy LPs as wholly supported by government funds have become the focus of many recent pain points of the private equity industry. Several leading PE industry media and data providers have point out that the goals of policy LPs are very different from the those of private LPs. Figure 21 visualizes how the two sources of capital made their ways into different forms of funds, which support different goals and investment strategies, and are manifest in different types of LPs.

It has become obvious to GPs that government guidance funds have distinct objectives. Previously, LPs were mainly from private companies, family businesses, founders’ funds, high-net-worth individuals, and asset management companies. The goal of these “new money” funds was simple: to make money. From the perspective of private firms, government guidance funds have multiple goals, none of which are to make money. A humorous short video on the online magazine ChinaVenture captures this sentiment. The video is titled “LP Dad Wants Not Only This, But Also That, And

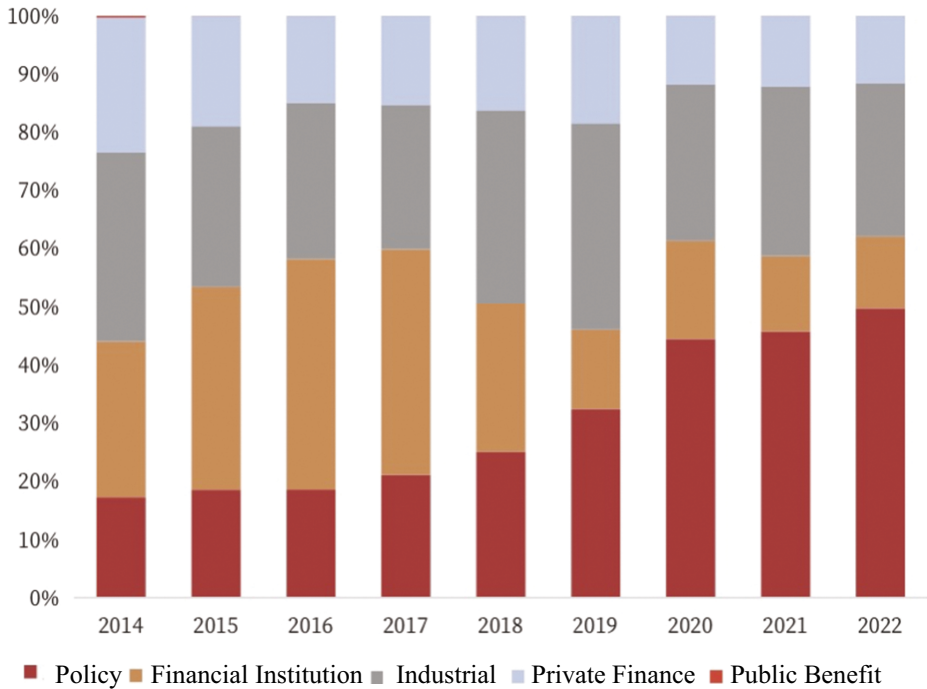


Figure 20: Percentage of Funds from Different LPs.

Source: FOFWEEKLY, “Panorama Report of China’s LP in 2022” (2022 年度 LP 全景报告)

Also the Other Thing, But Doesn’t Want to Make Money.” In the video, the chief editor of the magazine complained,

Investment banks are facing a decrease in business, they are unmotivated, they don’t want to play the game anymore. Now, journalists want to make money, financial analysts want to make some quick money, GPs want to earn management fees, who doesn’t want to make money? LPs. The one who should want to make money the most doesn’t want to make money! Those who should focus on their professional specialties do not want to engage in work, and only want to earn a bit of money. What’s the matter? In a few years, will there still be professional journalists? Professional investment bankers? Professional financial investors?

The “not only, but also, and also” expression has become a catch phrase for describing the multiple objectives of government guidance funds. Government guidance funds or policy funds typically are very risk averse. They often require a guarantee that there will be no loss of their investment. Some guidance funds have explicitly told GPs that investment returns, or DPI (Distributed to Paid-In Capital), are at the bottom of their list of priorities—hence ChinaVenture’s video lamenting that LPs who should want to make money the most do not want to make money. In contrast, the main goal of government guidance funds is to attract star companies and external investment to their region to boost the local economy. This is not surprising, because local govern-

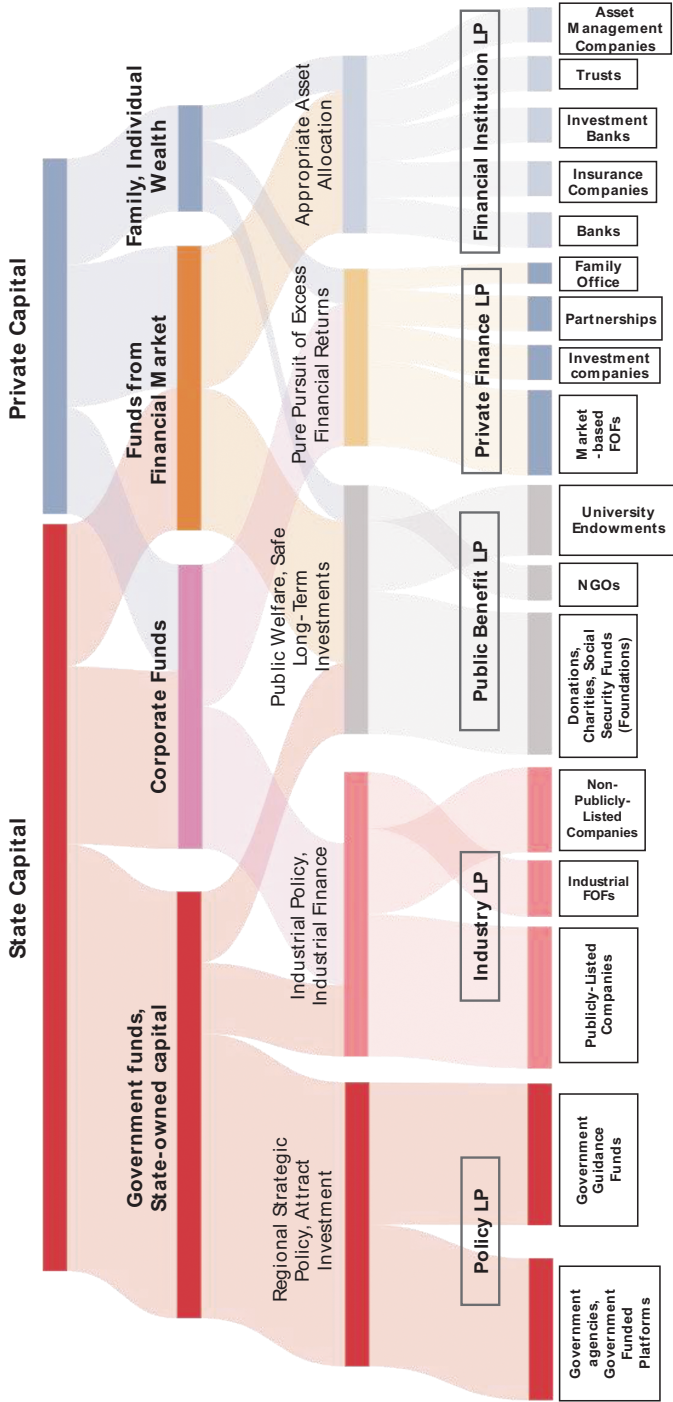


Figure 21: Sources of Capital and Types of LPs in China's PE industry.
Source: FOFWEEKLY, "Panorama Report of China's LP in 2022" (2022 年度 LP 全景报告)

ment officials do not depend on the rate of investment returns for their performance evaluation or promotion. Therefore, government guidance funds require that a pre-agreed percentage of the fund be invested in the local area. They also typically require the funds to register and establish an office in the local region, with help from the local governments in providing them with perks and benefits and in establishing relationships with local banks, authorities, and industries.

The multiple objectives of government guidance funds pose unique challenges to GPs, who were used to working with LPs from the private sector whose objective was simply to make money. Now GPs are limited to investing in the companies of a specific region or to bringing promising companies to the region. It can be challenging when a region is less developed and barely has any significant industries. The big private equity firms chase guidance funds from the central government, while smaller private equity firms must go to remote provinces, cities, and counties to find fundable companies and projects. Often there are not yet any publicly listed companies in these regions, the supporting industries are not yet established, and there are few investment opportunities. Yet the more underdeveloped the region, the higher the percentage that the local government requires to be invested in the region, which creates a higher barrier for attracting external GPs. Additionally, government-guidance-invested funds typically employ government compensation schemes and pay much less than market-based private equity firms, and therefore cannot attract top talent. Finally, governments have developed increasingly higher expectations regarding information disclosure, performance evaluation, accounting standards, and exit requirements, which burden GPs who are already engaged in activities that are not their specialties, such as attracting companies and investments for a region. Even the persuasive skills for raising money have changed. GPs no longer employ the Western style of emails and business plan presentations. They need to be familiar with the government discourse, and speak, write, and act like government officials. An article published in *ChinaVenture* in March 2023 notes that unlike the stories told to USD funds, where the Steve Job type of “reality distortion field” hyperbole is expected and taken as normal, the stories that appeal to government guidance funds need to be more conservative and factual. To many GPs, government funds are not suitable for high-risk growth investment. The article cites one GP’s perspective:

I can understand that the money comes from government revenue and therefore loss is not permissible. If loss is permitted, there will be middlemen who appropriate the money and act deceptively. But aside from fixed income, investment itself comes with wins and losses, and it is a matter of what level of risk that you can take. Guaranteeing no loss does not conform to the principles of economics.

Yet the article acknowledges that this trend is so widespread that players in the game have no option but to embrace the paradox.

Embracing the paradox has led to some strange behaviors. Another March article from *ChinaVenture* notes that GPs and LPs began to fool each other. The article says,

“In the past two years, GPs have both loved and hated getting government money.” It uses the analogy of marriage to describe the relationship between GPs and LPs:

The marriage of a husband and wife depends on love; the marriage of GPs and LPs depends on investment. However, some GPs and LPs can turn their relationship into an open one: you fool me, I fool you, you know that I am fooling you, and I also know that you know that I am fooling you.

The article describes this as “a bizarre situation in the primary market”:

GPs and LPs have begun to fool each other and have reached a strange tacit agreement. LPs will say, I can give you money, but the key is that you have to solve my other needs. GPs will say, I can work for you, and then they turn around and think to themselves: I'd be happy just earning some management fees, so if you don't care about investment returns, why should I care? In theory, GPs and LPs are bound together through investment. But in practice, nowadays neither party wants to make money through investment.

According to this article, because GPs recognize that LPs are not there for the money, they do not have the incentive to put projects with high expected returns into these funds. Also, in order to satisfy LPs' expectation of never losing money, GPs have devised a structure of co-GPs, that is, funds that have two names. If they make money, it counts as returns for the investment from the guidance fund, and if they lose money, it counts towards the other, non-guidance-invested fund. GPs have also sought to make money elsewhere, for example, through raising credit funds, which has become a grey area since the 2018 “New Rules of Asset Regulations” restricted banks' ability to place wealth management funds into private equity.

The dominance of government guidance funds has led to LPs retreating from the private sector. A ChinaVenture article in February 2023 focused on a hot topic among groups of individual LPs. A high-net-worth individual who had been an LP for more than 10 years was thinking about quitting. According to this LP,

Since the “New Rules of Asset Regulations” was issued in 2018, capital from banks has stopped, and the government investment platforms have taken over what should have been the tasks of “business people.” Venture capital is indeed strengthened, but it has become “government revenue equity.” I remain perplexed after a lot of thinking. I thought I had seen a lot, having lived in Europe, the US, Japan, and South Korea for several years; why couldn't China be like other countries, where civil servants just act like pure “civil servants”?

The article observes that in the past, when government funds usually accounted for 20–30% of a fund, the policy LPs did not change the fund's strategy, direction, and structure, and this would not compromise the financial returns of the funds. However, now that government funds can account for more than 70% of the pool, GPs have to seriously take on the goals of policy LPs, such as attracting businesses, bringing in investments, and increasing employment. “Not only, but also, and also” feels too difficult for the LP, based on his intuition as a businessman.

An April, 2023 FOFWeekly article also notes that the significant dry powder that government holds in guidance funds makes them hot among GPs; however, GPs also

need to raise money from the private sector in order to obtain guidance funds. This market-based money is shrinking and harder to find.

Because of the misalignment of demands by private sector LPs and government guidance LPs, government LPs have begun to change from the model of establishing funds of funds to directly investing in companies. Government LPs go out and conduct their own investigations of companies, negotiate terms, and serve as bridges to various government agencies and local companies. The boundary between LPs and GPs has become blurred by virtue of being modeled after the success story of Hefei city.

The Success Stories of Government Guidance Funds

Hefei is the provincial capital of Anhui province. It had been a small city in a relatively poor and undeveloped province. In 2000, its GDP was RMB32.5 billion, ranking 82nd in the country, after many secondary and tertiary cities. In 2021, its GDP was greater than RMB1100 billion and ranked 19th in the country. Its meteoric rise to a large and fast-growing city over the past 20 years is a story of wildly successful venture capital/private equity investments by the government. In 2007, the story goes, the city placed its first big bet: it invested RMB10 billion, a third of its revenue, in BOE Technology, a manufacturer of LCD and OLED displays. In order to invest the money in the company, the city even stopped building its subway system and could not afford to pay its civil servants' salaries for months. BOE Technology moved to Hefei and over time attracted an entire industry value chain to the city. The city continuously invested in this industry and became one of the world's largest manufacturing hubs for displays. BOE Technology had invested RMB100 billion in Hefei ten years after it moved to the city, far exceeding the city's original investment.

The city's second large bet came in 2017, when the city invested RMB10 billion in a new semi-conductor company, which is valued at RMB100 billion in 2023. Then, in 2020, Hefei invested in Nio Inc., a NYSE-listed manufacturer of smart, high-end, electric vehicles, at a time when the company could not raise any money. Due to the extraordinary vision and commitment of the Hefei government, the city has built comprehensive eco-systems of several key industries, such as displays, integrated circuits, solar power, biotech, and smart manufacturing. Today, Hefei continues to set up mega-sized guidance funds.

Not every city is as skilled, committed, or lucky as Hefei. Cities whose guidance funds did not see such returns on their investments could become more conservative in their strategies and less likely to take risks and make big bets. Nonetheless, exemplary cities like Hefei provide sufficient justification for the growth of government guidance funds elsewhere. Hefei was even regarded as the most successful investor by a big-shot private investor in venture capital/private equity. Every city aspires to be the next Hefei by setting up its own government guidance funds and actively engaging in making investment decisions in specific sectors, industries, and companies.

Although there are extremely positive cases like Hefei, most local governments still operate not so much as market players as what they truly are—government actors. Many articles in the online trade magazines of the venture capital/private equity industry have raised questions about the effect of guidance funds on the primary market: “If all the sources of capital are government revenue, what role does the market force play?” “How can government revenue continue to provide capital at this massive scale, and how long will it last?”

According to Zero2IPO, government guidance funds and government-backed industrial funds accounted for roughly 30% of the total amount of China’s private equity funds in 2012, and that number rose to 76% in 2022. During this period, government funds’ objectives of attracting outside businesses and capital have changed from implicit thresholds to explicit demands. In 2022, many guidance funds even write these objectives into their formal plans. This indicates that these government objectives have become normalized. Although the private equity industry’s online media are still questioning and dissenting with respect to the role of policy LPs and lamenting how they distort market mechanisms, they have accepted that this is the new reality of the private equity industry. Recent media coverage notes that the strategies and governance of guidance funds have also become more mature and more deliberate: Guidance funds are the engine that will attract LPs from the private sector to facilitate the transformation of industries, focusing especially on several of the industries that are on the government’s five-year plan and are critical for the country’s strategic advantage, such as advanced manufacturing, new materials, information technology, biomedicine, new energy, and digital technology. The future lies in how LPs from the private sector collaborate with government funds.

Discussion and Conclusion

Decoupling in the Private Equity Industry

The preceding analysis shows that the phenomenal growth of government guidance funds and their role in replacing funds from the private sector as the dominant source of capital for the private equity industry have fundamentally changed the nature of the private equity industry in China. The first-order institutionalization of the private equity industry began when foreign private equity firms entered China in the 1990s and has accelerated since the passage of the revised Partnership Enterprise Law in 2007. During this process, the first-order signification produced an understanding of the private equity industry that is akin to that in the West. Regulations such as the new Partnership Enterprise Law were conceived to make this industry more like its counterpart in developed countries. LPs from the private sector and asset management companies were motivated to participate in the industry and were the main drivers of growth.

However, before the first-order institutionalization was fully completed—in fact, when there was still a long way to go to make the Chinese private equity industry operate on a market basis and to make Chinese LPs, GPs, and their practices resemble those of the West—a second-order institutionalization process began. This process originated from the government's experience with the share reform for publicly listed SOEs. Taking a page from the theory of the financial conception of a firm, the CCP realized that state assets could be restructured, leveraged, securitized, and publicly traded. Allowing the state shares of the publicly traded SOEs to be fully tradable and permitting leveraged buyouts of state assets in 2004–2005 helped the central government manage state-owned capital as state-owned equity of publicly listed SOEs. Having done that on the stock market, the CCP, with its increased knowledge regarding equity capital, began to operate as an equity shareholder in the primary market. The last decade has witnessed the Chinese government becoming the largest LP in the private equity industry, once again transforming the nature of public ownership, from state-owned capital to state-owned equity.

When government funds were only 20–30% the size of private equity funds, they did not disrupt the system of norms and expectations. However, when they became the dominant LPs, their voices and objectives gradually eroded existing norms and replaced them with a different set of standards and demands. This second-order institutionalization is ongoing and has provoked questions and complaints from private LPs and GPs. However, these questions and complaints often take the form of humor and subtle hints, not explicit rejection, because the private sector recognizes the power of the hegemonic narrative and the real shift in the materiality of the industry.

The second-order institutionalization disrupted the first-order production of the signs of the private equity industry. The second-order signification precipitated the decoupling of the signs even when the first-order signification process was still ongoing. The decoupling occurred between the signifiers and the second-order signifieds. The second-order process has maintained the key signifiers of the industry, such as LPs, GPs, limited partnerships, management fees, carries, PIMs, and so on. In fact, many of these signifiers were adopted in their original English language form, which was rare in other industries. But as policy LPs gradually took over as the main supplier of capital, the nature of the players and the GP–LP relationships, rules, objectives, and processes have all shifted. The signifiers were emptied of their original, denotative meaning, and acquired a new set of meanings. In a sense, capitalist signifiers are now associated with socialist signifieds. The decoupling between signifiers and second-order signifieds did not occur overnight, but through several years of rapid change in the structure of the industry, with government guidance funds replacing privately sourced funds and becoming the largest LPs in the industry. The preservation of the signifiers is important as it lends face legitimacy to the industry. The new signifieds are more closely associated with the new materiality and have gradually obtained recognition and acceptance and are in the process of being taken for granted. Although the new materiality has an uncomfortable relationship with the ex-

isting materiality, in the sense that private LPs and private equity firms differ from policy LPs in their worldviews and investment objectives, such relationships are being actively negotiated. Over time, as policy LPs strive to act more like market actors, as they become more differentiated in their objectives, strategies, and governance structures, and as some of them become very successful, this fundamental change in LPs may not seem as questionable as it was before, and they can achieve a form of legitimacy that blends the first-order and the second-order signifieds.

The Relationship between Rhetoric and Materiality

The transformation of the private equity industry sheds light on the relationship between rhetoric and materiality. Conventional wisdom tends to focus on how rhetoric misrepresents materiality. The assumption is that materiality exists without symbolic representations, and that it can be measured without looking into the associated signifiers and signifieds. These assumptions have been problematized by the social constructivist perspective that treats materiality as linguistically constructed social facts. However, few have explored the kinds of dynamic relationships that rhetoric may form with materiality. The evolution of the private equity industry in China exemplifies dramatic changes in the relationship between rhetoric and materiality in the context of China's economic reform.

When the CCP first embarked on the economic reform in 1978, it gradually made use of a form of rhetoric that can be described as casuistry—a persuasive strategy based on irony. Using casuistry, such as the phrase “socialist market economy,” the CCP was able to boldly proclaim the official adoption of the radical notion of a “market economy” while reassuring leftists that the market economy was “socialist” (Li & Suddaby, 2023). In the first 20 years of the reform, the market economy was underdeveloped, and there was a widely shared view that some form of market mechanisms were needed to improve the economy. The CCP seized on this and allowed market mechanisms to first develop in parallel to the centrally planned economy and then to gradually take over the planned components of the economy. For all of these efforts, the rhetoric of the market reform has always been that the market is a tool and that it is needed for socialist ends. The rhetoric of market reform was always too radical to leftists and too conservative to liberal reformers. However, if we compare the rhetoric with the materiality of the market reform, the rhetoric was the result of difficult negotiations between the left and the right and was always a balancing act, but the materiality was rapidly changing and often pushed and breached what the rhetoric of the “market” would allow.

In the latter 20 years of the reform, the relationship between the reform rhetoric and the reform materiality has changed. As the materiality caught up, the government—just like private entrepreneurs—became knowledgeable about market mechanisms. As big investment banks like Goldman Sachs and Morgan Stanley and the big

accounting firms Deloitte, Earnest & Young, PwC, and KPMG packaged mega-sized SOEs to get them listed on the New York Stock Exchange, the government learned how the rules of the market game could be applied to SOEs. The growth and competitiveness of the private sector was an impetus for the SOEs to restructure and become bigger and competitive. Beginning in the latter half of the 2000s, SOEs had begun to shed the image of being a slow-moving, inefficient, and uncompetitive behemoth. In 2022, 136 Chinese companies made the list of the Global Fortune 500, 95 of them SOEs. At the same time, many private Chinese companies have become global brands, rivaling the top players in their respective industries.

When market, competition, and private property became undeniably material in the economy, this ironically bestowed legitimacy on socialist materiality such as SOEs, state-owned capital, and entrepreneurial local governments. The new socialist materiality then buttressed a socialist rhetoric that espouses equality, advocates socialist goals, and even proposes the elimination of private property. The tensional yet symbiotic relationship between market materiality and socialist materiality complicated the goals of the CCP's rhetoric even further. When the market materiality was lacking, the goal of the rhetoric was to let it develop, albeit with some limits and caution. However, when the market materiality came into full swing, anti-market rhetoric gained new momentum based on the new and strengthened socialist materiality. At this point, the CCP's rhetoric began to explicitly refute what it saw as extreme tendencies. Hence, instead of the promises made in the early years in positive terms such as “we must insist on the four cardinal principles, and we must insist on reform and opening up the economy,” more recent declarations have adopted a negative form such as “unwavering support” (e.g., “we *unwaveringly* support the strengthening and development of the public economy, and we *unwaveringly* encourage, support and guide the development of the private economy”), and “no change” (e.g., “the role and functions of the non-public economy *have not changed* in our economic and social development, our principles and policies of unwaveringly encouraging, supporting, and guiding the non-public economy *have not changed*, and our principles and policies of creating a favorable environment and providing more opportunities for the development of the non-public economy *have not changed*”). Both “unwavering” and “no change” indicate that there might have been wavering and change and hence the need for reaffirmation of the contrary.

The CCP's promises in the negative form are strong and unambiguous. However, the rhetoric elicited doubt and uncertainty from private entrepreneurs. The private sector read the messages as if the official rhetoric suggested the opposite. That the market reform and protection of private property needed reaffirmation implied that they were in jeopardy. Even though the official rhetoric continues to reaffirm the importance of market reform, unwavering support for private entrepreneurs, and protection of private ownership, the very performative act of this kind of rhetoric subverted its message. This is because private entrepreneurs already assumed that marketization had been institutionalized after 40 years of economic reform and was therefore not in need of reaffirmation. Harmon (2019) illustrates a similar phenome-

non involving the speeches of the chair of the United States Federal Reserve. His study shows that when the Fed explicitly reaffirms assumptions underlying the widely taken-for-granted monetary policy framework, it actually destabilizes the financial market and creates collective uncertainty. The changes in materiality in China's industries substantiate such doubts. The private sector, knowing that LPs are now dominated by state-owned capital, interpreted the reaffirmations of market reform as a signal that the market reform was no longer taken for granted and that state actors would become the dominant market actors.

In the last 20 years, the characteristics of rhetoric and materiality and their relations have become the opposite of what they were during the previous 20 years. In the past, materiality was in the fast lane in terms of breaking from conventions. Now, however, the official rhetoric of market reform has become more sweeping and reformist than materiality. Through the semiotic lens, reform rhetoric has produced floating signifiers that can absorb multiple and contradictory messages. The basis of legitimacy has subtly changed from economic growth and market liberalization to a more pronounced commitment to equality and balanced and sustainable growth.

The Transformation of the Societal Rhetoric and the Popularity of the Industry

What happened to the private equity industry in China is not unique. State-owned capital and state-owned equity have been active in the secondary market, in mergers and acquisitions, and in going international. Changes in materiality at the market or industry level shape and reflect changes in attitudes at the broader, societal level. As industry-specific signifiers such as LPs and GPs acquire new materiality and associated signifieds, more abstract signifiers in the broader discourse may be affected. In fact, the original casuistry may in some cases be turned upside down. For example, the term “Chinese characteristics” in the casuistry “socialism with Chinese characteristics” was coined to indicate that China was still in the “initial stage” of the long process of socialism. The concept of the “initial stage” was conceived by party theoreticians as a historical period that lasted many decades in which the economy was lagging behind and in need of development using market mechanisms. So “Chinese characteristics” is a unique phrase used to justify the application of capitalist market mechanisms for solving China's problems given China's stage of socialist development. It sets China apart from the “normal” socialism, which then allows China to use capitalist practices.

However, in November 2022, Yi Huiman, the chairman of the CSRC, spoke about a “valuation system with Chinese characteristics.” His idea was that publicly listed SOEs had been systematically undervalued for a long time and that new valuation methods that would more accurately value SOEs should be developed. He advanced and expressed the idea again in early 2023. Before long, the slogan “Chinese characteristics valuation” (中特估) had become a keyword in the stock market, and blue-chip SOEs have seen significant gains in their stock prices. Clearly, the “Chinese characteristics”

in Yi Huiman's phrase refer to a completely different set of interpretations in which the phrase indicates that China should not use the typical Western model of valuation. Instead, China should value SOEs differently because SOEs are different from the typical private companies that are listed on Western stock markets.

Few people may have noticed the appropriation of a term that was central to China's early reform efforts: In the past, the term "Chinese characteristics" was used to *justify the adoption* of Western market norms *despite the fact* that China is a socialist country, yet it is now being used to *justify a deviation* from the Western market norms *because of the fact* that China is a socialist country. This indicates that the abstract signifiers of the early reform rhetoric were subject to second-order signification and that the old notion of "Chinese characteristics" was gone, and the term has acquired a completely new interpretation that reflects a developed China confidently proclaiming its own system of valuations for its publicly listed SOEs. Arguably, the term "Chinese characteristics" has become free floating. Floating signifiers with multiple layers of signifieds are the ground for myth making. A myth can diffuse quickly among diverse stakeholders because of its status as an unchallengeable and authoritative narrative of how things are. The transformation of the interpretation of reform rhetoric at the macro level then further lends legitimacy to the change in specific industries such as private equity. This may help explain the rapid rise of this industry with substantial changes in the nature of its LPs, governance, and processes in the recent decade.

Conclusion

The meteoric rise of the Chinese private equity industry tells a story of how a socialist system appropriated a paragon organizational form from the capitalist system by using second-order signification to turn the original sign into a decoupled, free-floating sign. During this process, the relationship of the rhetoric and the materiality went through several stages of dynamic and tensional evolution. When a controversial materiality had yet to be realized and faced significant resistance due to ideological conflicts, the rhetoric was more moderate than the development of the materiality. However, when the new materiality became more established, a counter rhetoric could develop. At the same time, the old materiality could blend into the new materiality. The rhetoric that was built on the introduction of the new materiality that brought the legitimacy in the first place was now in question due to the blending of the old materiality. A more radical rhetoric could be used to affirm the legitimacy of the new materiality. But such rhetoric is further decoupled from the now blended materiality in which the old materiality now takes the form of the new. Throughout this process, rhetoric and materiality change as they respond to one another's waxing and waning legitimacy and as they adapt to and shape the macro-level discourse. The Chinese private equity industry helps shed light on the complex and dynamic co-evolution of rhetoric and materiality during transformational change.

Chapter 7

Concluding Thoughts

It is the summer of 2023, and as I am completing this book, China is in the 46th year of its economic reform and celebrating the 102nd anniversary of the founding of the CCP. I have framed China's capitalist transformation as an elite-led strategic and institutional change that incorporated an opposite ideology to improve its performance. However, it must be noted that the recent transformation is not the first time that capitalism was adopted in China. In the late Qing dynasty and the early Republic era, early forms of capitalism had emerged in Chinese merchants and industrialists, and the central government that was established after the last emperor had also adopted a Western-style government system. Shanghai once had a vibrant stock market, before the founding of the People's Republic, and the CCP had co-existed in a quasi-capitalist China, just not as its ruling party. Before leading the effort to found the CCP, Chen Duxiu founded the cultural magazine *La Jeunesse* (新青年) in 1915 to introduce Western liberal thought. On the cover of the first issue of the magazine is a portrait of the American industrialist and steel magnet Andrew Carnegie. *La Jeunesse* ended up being one of the most important platforms to inspire a generation of intellectuals and revolutionaries to learn from the West values that they saw as critical to saving China: science, democracy, human rights, the rule of law, and a government with separation of powers. In the early 20th century, capitalism and communism were not necessarily completely antagonistic in China, and a spectrum of ideological orientations were competing to lead China out of its semi-colonial conditions. Thus, capitalism was not new to the CCP, it was just increasingly abandoned by the CCP as it turned to the extreme left and attempted to tightly couple its communist ideology with its practice.

Although their early practical familiarity with capitalism may have helped the CCP embark on the journey to adopt capitalist practices, by the end of the Cultural Revolution, China and the West had taken hardline approaches to each other's ideology. In this context, the CCP's transformation took on some distinct features that this book's various chapters have elaborated upon.

In this concluding commentary, I would like to emphasize that one of the distinct features that has rarely been studied by China scholars is the decoupling between rhetoric and meaning. When Deng Xiaoping coined the phrase "socialism with Chinese characteristics," and earlier, when he mobilized intellectuals and the propaganda to re-define Mao Zedong Thought, he began the decoupled transformation. The rhetoric said nothing about capitalism, but the intended meaning was received clearly, and more and more competitive market measures were implemented until China achieved relatively advanced industrialization and financial marketization. Numerous rhetorical moves shifted the Chinese consciousness through multiple layers of meaning. One layer said that the country needed to change and adopt capitalism because what the CCP had

done didn't work; another layer said that the CCP would keep its core ideology intact; and a third layer said that we (the CCP) knew that you (the Chinese citizens) thought this was contradictory, but let's not get stuck on words and instead experiment and see what works. On the receiving end of such rhetoric from the elite, the masses understood that the CCP was intent on changing its ways and was also intent on maintaining certain things, and they pushed the boundaries of what could be changed using the very rhetoric of the elites. For the most part, the rhetoric worked, perhaps because the CCP was not trying to force a tight coupling between words and meaning.

Two other transformations in China did not go so well. First, the adoption of Western institutions and ideas in the era of *La Jeunesse* was intended to be a tightly coupled change: The elites aimed to enlighten the masses and liberate them from traditional institutions and ideologies, and they attempted to establish a government commensurate with those ideas. However, the government was dominated by warlords vying for control and was only a nominal entity, and the proffered ideas of science and democracy did not take root. The second tightly coupled change was the elimination of capitalists and the private sector after the CCP declared the founding of independent China in 1949. Mao Zedong adhered to the theories of socialist central planning and mobilized ideological work and institutional coercion to stigmatize capitalists and force the private sector to submit their ownership and operations to the government in only seven years. Had the CCP implemented its earlier plan, which was to co-opt capitalists for a longer period, China's economy would not have been hit as hard.

It is worth noting that the capitalist transformation of the former Soviet Union also did not go well. Initially, the shock therapy model seemed to have great promise. The Communist Party gave up power, the communist regime was replaced by a democratic government, and SOEs were privatized. On both the political and the economic fronts, capitalism was quickly adopted and implemented, which indicated a strong intention of seeking alignment between words and meaning. However, privatization was used by the power elites to centralize resources, and the creation of liberal markets was stalled. Efforts to tightly couple beliefs and practices led to chaos and economic crisis, and what was intended to be a democratic regime turned into authoritarian rule.

In contrast, several transition economies, such as those of Poland, Czechoslovakia, and Hungary, enjoyed relatively successful capitalist transformations both economically and politically, and it appears that their transformations were tightly coupled. However, it should be noted that these countries had roots of neoliberalism before the Soviet Union forced them to adopt socialism, and when they adopted socialism, they had already developed a strong resistance to the ideology before embarking on the transformation. The most pronounced example is Czechoslovakia, where an "underground culture movement" sustained a competing ideology in the 1970s and 1980s. Thus, these countries' transformations were not a tightly coupled change from socialism to capitalism, but rather a change from a decoupled socialism to capitalism.

These examples all point to decoupled change, rather than tightly coupled change, as a success factor for transformation. More case studies are needed to lend validity to this proposition, but China's transformation represents an extreme case of decoupled change that has achieved phenomenal success, so insights drawn from this case could potentially be applicable to transformational change at other levels of analysis and in different contexts. The benefits of decoupling may also not be immediately appreciated. After all, theories of organizational change have always emphasized the importance of having a vision and achieving that vision, implying a strong coherence between what is said and what is meant. Neo-institutional theory's observations of decoupling, whether it is policy–practice decoupling or means–ends decoupling, still assume that a more tightly coupled change is more desirable, but just not what actually happens because of environmental uncertainty and organizations' attempts to simultaneously satisfy multiple and competing stakeholder pressures. In practice, decoupling can also be negative: Hypocrisy is a universally denigrated trait, and almost all cultures extol the virtue of talk–action coherence. When something fails, the blame is often placed on a failure to keep promises or a failure to have the right vision. That is, it is assumed that a successful transformation always entails having a vision that differs drastically from the present and then a full realization of that vision.

Tightly coupled changes can be costly and risky because a pre-determined and drastically different vision and implementation can trigger significant resistance, both overt and covert, which can stall, derail, or outright bankrupt the attempt to change. In contrast, decoupled changes provide all sides with the necessary time and cushioning to absorb and digest what the change entails. Decoupled changes also allow people to interpret the change messages in multiple and even contradictory ways, as long as the interpretations suit their own interests and agenda. Finally, decoupled changes, with their inherent internal tension between words and their meanings, invite decoupled responses from the audience, which is afforded a larger space for ongoing negotiation with the change. Since the change is more malleable and indeterminate, both the change proponents and the resisters can perceive more potentiality for agentic maneuvering and mutual adaptation. In decoupled changes, what words mean is a rhetorical game that people participate in, knowing that their words and meanings are not unnecessarily aligned, but knowing also that others know about the intentional decoupling and may try to bring the words and their interpretations to be more or less in alignment.

An important implication of China's transformation for organization and management theory is how to manage an organization and lead change in a decoupled manner. Contemporary organizations are distinguished by loose coupling and organized hypocrisy. This is not necessarily a bad thing, as long as participants share the understanding that words do not necessarily mean what they appear to mean and that they can actively shape what the words mean. Managers taking a decoupled approach to managing organizations do not seek perfect alignment between means and ends, be-

tween policy and implementation, or between different divisions and departments, knowing in each case that such endeavors may increase the organization's rigidity at the expense of fostering responsiveness, local innovation, and problem solving. Leaders who take a decoupled approach to leading transformations craft messages that allow for polysemous interpretations and enactments, and they do not mind or may even cultivate a shared understanding that what they say and what they mean are different but necessary to move things along.

Some organizations get trapped in making the “words” right: they formulate and refine policies and enshrine them as the organization's constitution that everyone abides by. They strive to make sure that every word has only one meaning and refers to only one action, and they work to reduce any ambiguity that might arise from the text. These organizations will unfortunately see many of their policies violated and will spend even more time formulating policies about violations of policies. Such a focus on the “words” can only exacerbate the tension between the inherent uncertainty and idiosyncrasies of individual cases and the supposedly universal applicability of policies. Such organizations have managers who hide behind policies and are incapable to make and act on their judgments. Eventually, resources wasted on “words” will incapacitate these organizations.

Today, fewer organizations—although they still exist—get trapped in getting the “meaning” right: They believe in an idea and strive to instill that idea in the minds of their members. Unfortunately, these organizations will face resistance, as there will always be people who hold an opposite idea. They double down on their initial commitment and fight the opposition in order to uphold their “meaning.” These organizations have leaders who act like moral crusaders. Such a fixation on “meaning” can only exacerbate the opposition and make them even less willing to change. Changing minds is a difficult process and typically does not happen in a linear manner nor when coerced. The unwillingness to bend the meaning of words can also result in hidden resistance and covert deviation within the organization. Eventually, resources wasted on “meaning” will make these organizations rigid, polarized, isolated and, again, unable to act.

Ironically, when organizations are fixated on either words or meaning, their rhetoric will not matter that much because there is no space for creative interpretation. Perhaps it is only when an organization is neither fixated on words nor on meaning, but instead accepts the fundamental decoupling between words and meaning, that the rhetoric matters.

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