



The Chinese Communist Party's influence over businesses

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Sammanfattning

DENNA STUDIE UNDERSÖKER DET kinesiska kommunistpartiets (KKP) ökande inflytande över företag. Studien analyserar dels hur förändringar i kinesiska lagar, partibeslut och policys har möjliggjort nya sätt för partiet att utöva inflytande. Vidare undersöker studien KKP:s inflytande i praktiken genom att analysera tre dimensioner: ägande, närvaro av partiorganisationer och politisk signalering. Under de senaste 15 åren har förändringar i lagar och regleringar som initialt fokuserade på statligt ägda företag i allt större utsträckning även påverkat privatägda företag. Reformen av vikt inkluderar reformen om blandat ägande och policys som stärker partiledarskapet i företagsstyrning, vilket suddar ut gränserna mellan statligt och privat ägande. Statligt ägande i privata företag har gett partiet indirekt inflytande, exempelvis genom positioner i företagsstyrelser. Det finns också forskning som visar att närvaron av partiorganisationer i privata företag ibland påverkar företagsstyrningen. Politiska signaler från partiets ledning, som betonar partiets ledande roll och vikten av lojalitet mot KKP, pressar företag att anpassa sig till partiets intressen. Tillgänglig information om utländskt ägda företag, inklusive intervjuer med representanter för svenska företag, visar på en blandad bild. Partiets inflytande är mindre uppenbart i utländska företag än i kinesiska företag. Men eftersom politisk kontroll skapar oförutsägbarhet och urholkar investerarnas förtroende är konsekvenserna av partiets ökade inflytande i företag ändå betydande. För kinesiska företag som expanderar internationellt är spänningen mellan KKP:s inflytande och globala affärsnormer ännu större.

Nyckelord: Kinesiska kommunistpartiet; kinesiska företag; politiskt inflytande; blandat ägande; statliga företag; privata företag; utlandsägda företag; svenska företag.

Summary

THIS STUDY EXAMINES THE Chinese Communist Party's increasing influence over businesses. First, it analyses how changes in Chinese laws, intra-Party regulations, and policies have created new means for the Party to exercise influence. Secondly, the study examines CCP influence in practice by analysing three dimensions: ownership, party organisation presence, and political signalling. Over the past 15 years, regulatory changes that initially targeted state-owned enterprises (SOEs) have also increasingly affected private-owned enterprises (POEs). Key reforms emphasise mixed ownership and reinforcing Party leadership in corporate governance, blurring the lines between state and private ownership. State ownership in POEs has given the CCP indirect influence, for example, through positions on company boards. There is also research showing that Party organisation presence sometimes affects corporate governance. Political signalling from the Party leadership, emphasising the CCP's leading role and the importance of loyalty to the CCP, pressures businesses to align with Party interests. Available information on foreign-owned companies (FOE), including interviews with Swedish company representatives, reveals a mixed picture. Party influence is less obvious in FOEs than in Chinese companies. Nevertheless, the consequences for foreign companies operating in China are significant, as political control introduces unpredictability, eroding investor confidence. For Chinese companies expanding internationally, the tension between CCP influence and global business norms is even greater.

Keywords: Chinese Communist Party; Chinese businesses; political influence; mixed ownership reform; state-owned enterprise; private-owned enterprise; foreign-owned enterprise; Swedish companies.

Foreword

IN RECENT YEARS, A number of efforts have been made in Sweden to deepen the understanding of China's emergence as a global power and its implications for Sweden. The Swedish Defence Research Agency (FOI) has been conducting security studies on China for the past 15 years and has recently substantially expanded its research activities. The Swedish National China Centre (NKK) at the Swedish Institute of International Affairs (UI) was established in 2021 as a direct reaction to Sweden's growing demand for greater knowledge about China's rise.

This report is co-authored by Oscar Almén (FOI) and Hanna Carlsson (NKK). Since its inception, NKK has collaborated with FOI on various activities, but this marks the first time our cooperation has resulted in a joint report. We firmly believe that our collaboration has enriched the research and analysis in this report, contributing valuable insights into China's significance for Swedish security and economy.

With wishes of a pleasant read,

Björn Jerdén, Director of NKK at UI
Karolina Gasinska Singh, Head of Eurasian security policy department, FOI

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Executive summary

- This study examines the Chinese Communist Party’s (CCP) influence over businesses. First, it analyses how changes in Chinese laws, intra-Party regulations, and policies have created new means for the Party to exercise its influence. Secondly, the study examines CCP influence in practice by analysing three dimensions: ownership, party organisation presence, and political signalling.
- The study is based on a review of relevant laws and regulations, existing research on relations between the CCP and businesses, and interviews with representatives of Swedish-owned companies operating in China.
- Over the past 15 years, regulatory changes that initially focused on state-owned enterprises (SOEs) have also increasingly affected private-owned enterprises (POEs). Key reforms emphasise mixed ownership and reinforcing Party leadership in corporate governance, blurring the lines between state and private ownership.
- There are still important differences in Party influence between SOEs and POEs; for example, SOEs have embedded political governance, where the Party organisation is represented on the board, while no such rules exist for POEs. However, SOE policies often serve as models for regulating POEs.
- *Ownership*: The mixed ownership reform has resulted in a large number of SOEs acquiring stakes in POEs. This indirectly gives the party more influence over POEs, also sometimes when it is a minority post. The most obvious cases are government “golden shares” in high-tech companies such as ByteDance, Weibo, and Tencent. Some of the interviewees also highlighted golden shares as one more direct aspect of the CCP’s influence over businesses.
- *Party organisation presence*: By law, all private companies with CCP members must establish party organisations. The extent to which this law has been implemented is not entirely clear, although most large private companies have party organisations. While many observers claim that Party organisation activities are limited to social activities and have little influence over corporate governance, there is also abundant research showing that Party organisation presence in POEs on an aggregate level affects corporate governance.

- CCP membership among company managers is another possible way for the CCP to influence POEs. Many entrepreneurs actively seek to become party members in order to gain political influence that can help their businesses thrive. However, as the Party continuously tightens ideological and political control of Party members, they might become more incentivised to adapt companies' activities to be more in line with the intentions of the CCP.
- *Political signalling*: The overall influence that the Party exercises over POEs through political signalling is substantial. Chinese as well as foreign companies have to be constantly aware of changes in the political environment. Through new legislation and the publication of Party documents and speeches by leaders, the CCP leadership signals that private entrepreneurs must follow the leadership of the Party. This message has become ever more clear and strong during Xi Jinping's reign.
- So far, there is no evidence that similar patterns of party organisation influence on corporate governance exist in foreign-owned enterprises (FOE). According to the Swedish company representatives interviewed in the study, Party organisation activities are strictly internal Party matters and have no impact whatsoever on the companies' business activities.
- Swedish company representatives emphasised that the fact that the CCP completely dominates politics and society is something that is a starting point when doing business in China and was seldom raised as a problem. However, they acknowledged that the political changes in recent years, including political centralisation and increasing nationalism, were the political factors most affecting businesses.
- The consequences of political influence over Chinese companies are in some ways more dramatic for Chinese companies outside China than for those within China. As Chinese companies have expanded their presence far beyond China's borders, the CCP's obsession with political control increasingly clashes with Western ideals of businesses operating independently from political influence, at least of the CCP variety.

Abbreviations

ACFIC	All-China Chamber of Industry and Commerce
ACFTU	All-China Federation of Trade Unions
CCP	The Chinese Communist Party
CEO	Chief executive officer
CPC	Communist Party of China
CSCS	Corporate Social Credit System
CSRC	China Securities Regulatory Commission
EU	European Union
EU Chamber	European Union Chamber of Commerce in China
FBI	Federal Bureau of Investigation
FOE	Foreign-owned enterprise
FOI	Swedish Defence Research Agency
HR	Human resources
ICSID	International Centre for Settlement of Investment Disputes
JV	Joint venture
LGBTQ	Lesbian, gay, bisexual, transgender and queer or questioning
NGO	Non-governmental organisation
NKK	Swedish National China Centre

POE	Privately owned enterprise
PRC	People's Republic of China
SASAC	State-Owned Assets Supervision and Administration Commission
SOE	State-owned enterprise
UFWD	United Front Work Departments
U.S.	United States of America

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1. Introduction

THE RELATIONSHIP BETWEEN THE Chinese Communist Party, the state, and business has been an important issue since the beginning of China's economic reforms in the late 1970s. The particular Chinese model of combining a sprawling private sector with strong state leadership has been termed state capitalism.¹ In China, businesses are divided into two main types: state-owned enterprises (SOE) and privately owned enterprises (POE). These two distinct types differ in terms of corporate structure and the regulations under which they operate; these directly affect Party presence and involvement. In recent years, especially during Xi Jinping's term from 2012 as China's paramount leader, the Chinese Communist Party (CCP) has increased its presence and influence in both SOEs and POEs. This follows increasing ideological and political control throughout Chinese society. In order to describe the CCP's more direct presence and control in businesses than previously, observers have conceptualised this evolving corporate governance model as "Party-state capitalism" or "CCP Inc."² Political control over businesses has consequences for domestic firms as well as foreign investors. Foreign-owned companies in China are also affected by legal and political changes. In addition, CCP influence over Chinese companies affects how these companies are perceived outside China, especially when they are operating internationally. This is crucial for China's domestic political development as well as for international economic security.

The CCP's influence over businesses has developed step by step through a number of new laws and Party decisions. This study examines these laws and policies and discusses how they have played out in practice. Furthermore, based on interviews with representatives of Swedish companies operating in China, it examines how the political changes affect foreign companies.

1 Margaret Pearson, Meg Rithmire & Kellee S. Tsai. Party-State Capitalism in China. *Current History*. 120: 827 (2021): p. 277. <https://doi.org/10.1525/curh.2021.120.827.207>

2 CCP Inc. is described as a development from the previous China Inc. model. Barry Naughton and Briana Boland. *CCP Inc.: The Reshaping of China's State Capitalist System* (CSIS, January 2023). p. 2; Pearson, Rithmire & Tsai, Party-State Capitalism in China. While the CCP and the state are formally separate institutions, they are also closely embedded, which often makes it incorrect to treat them as separate units. This study often uses the concept Party-state to depict when both institutions are involved.

1.1 Purpose

The overarching purpose of this study is to examine how increasing political control has affected businesses in China. More specifically, the study has two aims. First, by applying analysis of laws, political documents, and policy statements, it examines the CCP's intentions in exerting influence over private businesses in China. Secondly, based on previous research and interviews with representatives of Swedish-owned companies in China, it examines how and to what extent CCP influence over POEs and foreign-owned enterprises (FOEs) is played out in practice.

The following research questions are examined: 1) What means of influence over private businesses do state laws, intra-Party regulations, and policy documents give to the CCP? 2) How is CCP influence over private businesses exercised in practice?

1.2 Methodology and sources

To address the first objective of the study, the research methods included a thorough review and analysis of prior research, as well as an examination of relevant legal sources such as laws, intra-Party regulations, CCP decisions, and key statements. While the CCP does not directly stipulate laws, some regulations, such as the Constitution of the PRC and the Constitution of the CCP, operate within parallel legal spheres. CCP regulations are primarily intended for Party members and organisations; however, as this study explores, there are overlaps between state and CCP rules.

The analysis of state laws, intra-party regulations, CCP documents, and doctrine follows a traditional legal methodology, wherein the original meaning of the rule is interpreted through a structured legal hierarchy. Typically, laws occupy the highest position in this hierarchy, while doctrine is generally regarded as lower.³ However, Chinese legal culture often frames laws in a deliberately open manner, allowing for local adaptations and the application of implementation rules, which play a crucial role in clarifying specific legal provisions. There is therefore a need for further guidance in interpreting and understanding their original intention. Additionally, the lack of publicly available preparatory work limits insight into the Chinese legislative process. Party opinions are one available form of preparatory materials that can be consulted when interpreting Chinese state laws. Regarding intra-Party regulations, their original intention is further concealed by the fact that the CCP is a secretive organisation in nature. Other sources, such as Party documents, statements, and speeches by leading figures, play a significant role in the interpretation and clarification of both Party regulations and state laws. While the

³ See, for example, Minna Gräns. Användningen av andra vetenskaper. In Fredric Korling & Mauro Zamboni (ed.). *Juridisk Metodlära* (Studentlitteratur AB 2015), p. 421.

Party does not directly make laws, it sets forth the policies that ultimately shape legislation. This analysis is further contextualised by comparison with doctrine through previous research.⁴

A second purpose of the study is to understand how these regulations and policies are played out in practice. For this purpose, the study combines information from previous research, official statements and data, and interviews. For example, quantitative research on the extent to which companies include party cells and Party-building in company charters provides important information. This section also includes interviews with representatives of Swedish companies with a presence in China regarding their experiences of the CCP's influence.

Seven interviews were conducted with Swedish company representatives and people who have worked closely with Swedish companies, either through their own proper business or their role in business-related organisations. All of these interviews were anonymized. In addition, one expert interview was conducted with Kasper Ingeman Beck, who has researched and published several articles on relations between the Party and business (hereafter Party-business relations) in China. To find suitable interviewees with insights into Party-building activities was a challenge. Some were reluctant to discuss topics that could result in a possible backlash from either Sweden or China, while others had limited knowledge of Party-building activities and had little to say in the matter.

The eight interviews conducted for this study involve representatives of six different companies. They present a wide range of company size and degree of investment. All interviewees are non-Chinese and have several years of experience doing business in China. Nevertheless, as foreigners, they represent an “outside” perspective in comparison to Chinese businessmen. For example, none of them have any direct experience of what actually goes on within the CCP organisations in the companies. All companies are wholly foreign-owned enterprises. Three companies were founded in China and do not have another business in Sweden. Two companies are large companies with several establishments in China. Furthermore,

4 Examples of laws, Party regulations, and documents that were analysed include: 中华人民共和国公司法 [Company Law of the People's Republic of China]. 1993年12月29日第八届全国人民代表大会常务委员会第五次会议通过, 2018年10月26日第十三届全国人民代表大会常务委员会第六次会议第四次修正 2023年12月29日第十四届全国人民代表大会常务委员会第七次会议修订 [Adopted on 29 December 1993 at the Fifth Session of the Standing Committee of the Eighth National People's Congress; amended and adopted for the fourth time at the Sixth Session of the Standing Committee of the Thirteenth National People's Congress on 26 October 2018; revised at the Seventh Session of the Standing Committee of the Fourteenth National People's Congress on 29 December 2023]; 中国共产党章程 [Constitution of the Communist Party of China]. (中国共产党第二十次全国代表大会部分修改·2022年10月22日通过) [Revised and adopted at the 20th National Congress of the Communist Party of China on 22 October 2022]; 中共中央办公厅印发《关于加强和改进非公有制企业党的建设工作的意见(试行)》 [The General Office of the CPC Central Committee issued the “Opinions on Strengthening and Improving Party Building in Non-public Enterprises (Trial Implementation)”] (24 May 2012); and 中共中央办公厅. [General Office of the CCP Central Committee]. 关于加强新时代民营经济统战工作的意见 [Opinions Concerning Strengthening United Front Work in the Private Economy in the New Era]. (15 September 2020).

several business organisations are represented through these interviews. Despite the limited number of interviews, they offer condensed knowledge and insights into Swedish business in China.

Clearly, the CCP's influence over companies is a sensitive subject for the companies. Some of the interviews were conducted online via video link, and it must be assumed that the risk of being surveilled affected the interviewees' answers. In one case, the interviewee even said that they were not supposed to talk about politics.

The study is based on a mix of sources in English, Swedish, and Chinese. For laws and party directives, the original Chinese version has generally been used.

1.3 Studying influence

Studying Party influence in a one-party dictatorship might seem futile since political power is completely in the hands of the CCP. However, despite Xi Jinping's centralisation of power within the CCP, the Party remains an enormous organisation with almost 100 million members with diverging opinions and interests. Most companies' main relationship to the CCP is with the local party committee, which may sometimes have interests that differ from those of the central leadership in Beijing. Moreover, while it is true that the CCP can choose to exercise unconstrained control over all businesses, this does not mean that it is in its interest. As history has shown, rulers can have an interest in building institutional rules that limit their discretionary powers because this might increase their governing capacity.⁵ If the Party ignores the rules and laws governing businesses, the cost is likely to be decreasing trust in the economic system and ultimately negative economic consequences for the Party. Hence, laws and rules also matter in an authoritarian country, such as China, and therefore it is relevant to study state laws as well as intra-Party regulations and policies that govern the CCP's influence on businesses.

Political science research has long debated how to make a conceptual distinction between influence and power.⁶ As argued by Dahl and Stinebrickner, such a distinction is not always necessary, however. The present study is concerned with all aspects of how the Party controls, exercises power, and, by other means, influences businesses. It therefore makes sense to use a broad definition of influence. We use Robert Dahl's classic definition of influence as "a relation among human actors such that the wants, desires, preferences, or intentions of one or more actors affect the actions, or predispositions to act, of one or more other actors in a direction

5 Douglass North & Barry Weingast. Constitutions and Commitment: The Evolution of Institutions Governing Public Choice in Seventeenth-century England. *Journal of Economic History*. 49: 4 (1989): pp. 803–832. doi:10.1017/S0022050700009451.

6 Ruth Zimmerling. *Influence and Power: Variations on a Messy Theme* (Springer, 2005).

consistent with—and not contrary to—the wants, preferences, or intentions of the influence-wielders.”⁷

Two levels of influence, legal and practical, are analysed below. The legal level examines the influence over businesses that the laws and policies give the CCP. The second level examines how the CCP’s influence in private companies is played out in practice. Influence in practice is examined through three dimensions, which in some ways overlap. We have selected these dimensions as they constitute different forms of Party influence as explained below.

Ownership: The CCP’s control over SOEs is more direct than in POEs. SOE ownership in POEs in turn opens up an indirect channel of influence for the CCP over POEs. Even small minority posts may give the state influence and access to decision-making, through, for example, board membership.

Party organisation presence: The existence of a Party organisation, which depends on the number of Party members in the company. The extent to which the party organisation exercises influence may differ between being symbolic, such as by including Party-building in the company charter or just establishing a party cell, to substantive influence, which gives the Party influence over corporate decisions or personnel appointments.⁸ The Party’s increased general supervision of party members further strengthens party presence as a path for influence. Party members in companies may occupy important positions, for example, as board members or in other key roles, potentially allowing the Party organisation to receive access to inside information and channels that can influence decisions.

Political signalling: This dimension covers the more general political environment in China. Laws, regulations, policies, speeches by Party leaders at the national and local levels, and other forms of propaganda and political signals work as strong incentives for businesses to act consistently with, and not contrary to, the intentions of the CCP. Companies may proactively align with the CCP’s stated will to demonstrate loyalty, gain advantages, or avoid being sanctioned by the Party state.

1.4 Outline

Following this presentation of the purpose and methodology in Chapter 1, Chapter 2 provides some essential background to Party-business relations, including concepts such as party-building. The focus in Chapter 3 is on the first research question, regarding what laws and policies say about the CCP’s influence over companies. It

7 Robert A. Dahl. Bruce Stinebrickner. *Modern Political Analysis* (Prentice Hall, 2003), p. 17.

8 We follow the division of Party influence into symbolic and substantive influence as presented in Lauren Yu-Hsin Lin. Institutionalizing Political Influence in Business: Party-Building and Insider Control in Chinese State-Owned Enterprises. *Vermont Law Review*. 45 (2021): pp. 441–480. <http://dx.doi.org/10.2139/ssrn.3684572>.

describes and analyses the state laws and intra-Party regulations governing Party-business relations. Chapter 4 continues with an analysis of how Party influence has played out in practice based on the three dimensions of influence outlined above. It also includes interviews with representatives from Swedish companies operating in China. Chapter 5 concludes the report by summarising the results and discussing the consequences of the findings.

2. An overview of Party-business relations

THE TOPIC OF THE CCP's Party-business relations has been comprehensively covered in several studies. This study mainly builds on others published after Xi Jinping came to power (2012) and more specifically in recent years when the issue of CCP control over businesses has become increasingly salient due to the enacting and implementing of a number of new policies and laws. They are referred to throughout this report.⁹

The CCP has always had a complex relationship with private entrepreneurs. The change in the CCP's attitude towards capitalists over time has been nothing short of revolutionary. During Maoism and until the end of the 1970's when Deng Xiaoping initiated the policy of reform and opening up, private entrepreneurs were considered class enemies, and few private enterprises even existed, while those that did were typically small family-owned businesses. An early reform made room for larger-scale, non-state-owned businesses known as township and village enterprises; these were collectively owned, sometimes ultimately controlled by local governments and sometimes by private households. These types of enterprises had an increasingly significant role, with its peak during the mid-1990s, in the Chinese economy.¹⁰ During this reform, growth was a highly prioritised policy goal, which gave significant roles to other forms of enterprises than SOEs.

9 Naughton & Boland, CCP Inc.: The Reshaping of China's State Capitalist System; Frank Pieke & Naná de Graaf. *Chinese Influence and Networks among Firms and Business Elites in the Netherlands*, (Leiden Asia Centre, 2022); Pearson, Rithmire & Tsai, Party-State Capitalism in China; Scott Livingston. *The New Challenge of Communist Corporate Governance* (Center for Strategic and International Studies (CSIS), 2021). <https://www.csis.org/analysis/new-challenge-communist-corporate-governance> (Accessed 2024-10-17); Kasper Ingeman Beck, Reforming the Chinese State Sector: Mixed Ownership Reforms and State-Business Relations. *Journal of Contemporary China*. 32: 140 (2022): pp. 264–279. <https://doi.org/10.1080/10670564.2022.2071901>; Kasper Ingeman Beck and Kjeld Erik Brødsgaard. Corporate Governance with Chinese Characteristics: Party Organization in State-owned Enterprises. *China Quarterly*. 250 (2022): pp. 486–508. doi:10.1017/S0305741021001351; Daniel Koss. Party Building as Institutional Bricolage: Asserting Authority at the Business Frontier. *China Quarterly*. 248: S1 (2021): pp. 222–243. doi:10.1017/S0305741021000692; Xiaojun Yan and Jie Huang. Navigating Unknown Waters: The Chinese Communist Party's New Presence in the Private Sector. *China Review*. 17: 2 (2017): pp. 37–63. <https://www.jstor.org/stable/44440170>; Lauren Yu-Hsin Lin & Curtis Milhaupt. China's Corporate Social Credit System: The Dawn of Surveillance State Capitalism? *China Quarterly*. 256 (2023): pp. 835–853.

10 Laixing Sun. *Ownership reform in China's township and village enterprises*. (International Institute for Applied Systems Analysis, 2007). <https://core.ac.uk/download/pdf/33899924.pdf> (Accessed 2024-10-15).

However, it took 23 years from the launch of Deng Xiaoping's reform policy for Jiang Zemin to announce that private entrepreneurs would be allowed to join the CCP. Despite the CCP's recognition that private entrepreneurs play an important part in China's development, the Party is still rooted in Marxism-Leninism, which has an imbedded suspicion towards anything considered capitalist or that it does not directly control. Under Xi, the CCP's presence in and control over all aspects of society has steadily increased. Xi's ambitions in this regard are clear: no individual or organisation can be allowed to challenge or question the authority of the Party. For instance, in 2018 he proclaimed in a Central Committee meeting that "we must adhere to the Party's leadership in the Party, government, military and civilian affairs, east, west, south, north, and central, the Party leads everything. The Party is the highest force for political leadership, the leadership of the Party is our greatest institutional advantage."¹¹

Party-business relations must be understood in the context of the political changes that have taken place during Xi's rule. At the same time, it should be remembered that the Party leadership has always been obsessed with political control. Thus, the changes during Xi's term are matters of degree rather than of kind. Since Xi took charge in 2012, political indoctrination and ideological conformity have increased markedly in a society already dominated by CCP propaganda. Pluralism of opinion and room for expression have been severely curtailed in academia, media, and civil society. Since 2016, the Party-state has cracked-down on civil society, especially nongovernmental organisations (NGOs) in politically sensitive sectors such as rights advocacy for labour, LGBTQ issues, and feminism, which have essentially ceased to exist. In other still-tolerated sectors, political control and monitoring have increased. Since 2015, similarly to the business sector, NGOs have been required to form party cells that report to the local party committee.¹² These examples clearly show that policies such as party-building and Party presence in businesses are part of a greater CCP strategy to strengthen its presence and control over society. It is not that the CCP does not recognise the important economic role of private companies, for Xi has publicly praised their role in the economy, but that the strength of the private sector must be used to serve the interests of the CCP. This requires greater political control.¹³

11 习近平：毫不动摇坚持和加强党的全面领导 [Xi Jinping: Unwaveringly uphold and strengthen the Party's overall leadership]. Speech at the 2nd plenary session of the third meeting of the 19th CCP Central Committee. (28 February 2018). https://www.gov.cn/xinwen/2021-09/15/content_5637459.htm (Accessed 2024-10-31).

12 Oscar Almén & Gustav Sundqvist. Local Governance Diversity in the Unitary Authoritarian State: NGO-State Relations in Guangzhou and Hangzhou. *Journal of Contemporary China*. 32: 142 (2022): pp. 669–685. <https://doi.org/10.1080/10670564.2022.2109843>.

13 Naughton & Boland, CCP Inc.: The Reshaping of China's State Capitalist System.

2.1 Party-building and party organisations

Party-building is an often emphasised aspect when discussing the CCP's increasing influence over businesses. Since 2015, SOEs have been required to add Party-building to the provision of company charters. In a study of the CCP's influence over Chinese companies abroad, Frank Pieke summarises Party-building:

“Party-building involves the recruitment, education, and training of party cadres, members, preparatory party members and activists; the organisation and activities of party branches and party committees; and the improvement of the discipline, behaviour and ideological awareness of party members. Most importantly, party work lifts the party spirit and strengthens party discipline, thus aligning the Party's members and cadres with the methods, work style, vision, goals, and ideology of the centre.”¹⁴

In other words, Party-building involves strengthening the discipline and supervision of Party members to ensure that they remain loyal to the CCP and act in its interests. Another aim with Party-building is to strengthen CCP control over businesses. The Party-building provisions that are included in the guiding opinions for SOEs even allow the CCP to influence material business and personnel decisions.¹⁵ As discussed below, including Party-building provisions has also become more prevalent in private companies. Hence, in businesses, the Party's purpose is to take and maintain a leading role for political and ideological guidance.

Party-building in businesses is done through party organisations. There are several levels of party organisations depending on the type of organisation and how many Party members it has. In this study, we are mainly concerned with two types of Party organisations, the Party cell (党支部) and the Grassroots Party Committee (党的基层委员会). The Party cell, sometimes also referred to as the Party branch, is the basic unit of these grassroots organisations. The Party cell must be established in an organisation when it has at least three party members. The Grassroots Party Committee, simply referred to here as the Party Committee, exists in an organisation that has more than 100 Party members. The Party Committee can be charged with establishing or overseeing the work of Party cells.¹⁶ As always in the CCP system, Party committees are accountable and report to Party committees one level up in the party hierarchy. A third Party organisation also worth mentioning is the leading Party members group (党组), which is usually found in central SOEs. The leading party members group is charged with coordinating and leading non-party organisations.¹⁷

14 Pieke & De Graaf. *Chinese Influence and Networks among Firms and Business Elites in the Netherlands*. p. 49.

15 Lin. *Institutionalizing Political Influence in Business*. p. 443.

16 Livingston lists seven different types of party organisations. Livingston, *The New Challenge of Communist Corporate Governance*, p. 3.

17 Ibid.

3. Laws and policies regulating CCP business relations

THIS CHAPTER DESCRIBES AND analyses the development of laws, Party regulations, and policies regulating CCP-business relations.

In general, state laws and Party regulations function within two separate rule systems. The Party does not make laws and the intra-Party regulations cannot be used within the judiciary as state laws can. Thus, the Party regulations should only be applicable to Party members, Party organisations, and their behaviour. However, the boundary between the Party rules and state laws is blurred and is becoming increasingly more so through the relatively new concept of “the Party leads everything.”¹⁸ State laws need to recognise Party leadership, and there is an expectation of compliance with both state laws and Party regulations.¹⁹ Moreover, Party documents can shed light on which policies the leadership finds relevant and that later could become mandatory rules to follow, either through state laws or party regulations.

3.1 Emergence of the private sector and reform of SOEs

In the early days of economic reform, all big enterprises were SOEs with the addition of some multinational foreign companies. In February 1984, the CCP Central Organisation Department released the first official document affirming the Party's goal of reestablishing its presence within the private economy.²⁰ Up until the violent crackdown on the democracy movement in 1989, it was not clear in what direction reforms in politics and economics, such as implementing more liberal politics or a stricter Soviet-style planned economy, would take. The following political crackdown put an effective stop to many ideas of political and economic reform, such as the separation of Party and government. As the orthodox Marxists of the Party gained momentum, private entrepreneurs were associated with the crisis that the Party experienced. Consequently, in a speech in late 1989, CCP General

18 Jiang Feng. Party Regulations and State Laws in China: A Disappearing Boundary and Growing Tensions. *Chinese Law and Government*. 51: 5–6 (2019): p. 261. <https://doi.org/10.1080/00094609.2022.2131255>.

19 Ibid. p. 267 and 269.

20 Yan & Huang, *Navigating Unknown Waters*, p. 43.

Secretary Jiang Zemin said, “We must make sure that the leading authority of all Party and state organs is in the hands of loyal Marxists,” which subsequently led the CCP to ban the recruitment of private entrepreneurs as Party members.²¹ This ban was perceived as closely tied to the weakness of Party-building in the private sector. Employees could be recruited into the Party, while their employers could not, which gave entrepreneurs little incentive to set up Party organisations within their businesses. Party presence was especially weak in foreign-invested businesses. In the event they did exist, Party activities had to remain underground since they were against the foreign partners’ wishes. Moreover, many Party members lacked competence for key roles or were simply unwilling to work for foreign-funded businesses, due to the belief that “it would hurt the Party’s dignity to learn from foreign capitalists.”²²

During this time, foreign businesses represented the most “autonomous” force in Chinese society.²³ Efforts were therefore made to incorporate foreign ventures into the organisational structure of the Party. These efforts can be seen in a 1993 document where the CCP Central Organisation Department proposed that “all foreign ventures with more than three full Party members should establish Party organisations in accordance with the provisions of the Party constitution” and that the main task of Party branches in foreign firms was to “educate Chinese employees in the theory of socialism with Chinese characteristics, the Party’s basic line, patriotism, and the importance of a collective spirit and help them to resist the corruption of various decadent ideas.”²⁴ The same year, the Company Law was implemented; it addresses Party organisations within business through its Article 17, but without specifying their role. The article states that companies are required to set up Party organisations according to the CCP Constitution and to provide the necessary conditions for their activities. The article is identical to Article 19 in the current version of the law and hereafter is therefore referred to as such.

The Chinese market economy was evolving rapidly throughout the 90s. This rapid development was especially true for POEs, which by the mid-90s had become well-established partners of the economy. This development and expansion of the private sector was occurring with little to no Party leadership. The Party’s absence from the private sector was a political risk that the central leadership was well aware of. In 2000, General Secretary Jiang Zemin visited Jiangsu, Zhejiang, and Shanghai, where he urged local officials to direct more energy toward Party-building in private businesses. Following his speech, the CCP Central Organisation Department issued an important document that clarified that these operations were not limited

21 Bruce J. Dickson. *Red capitalists in China: The party, private entrepreneurs, and prospects for political change* (Cambridge University Press, 2003), p. 35.

22 Ibid, pp. 39–40.

23 Yan & Huang, *Navigating Unknown Waters*, p. 43.

24 Ibid, p. 44.

to foreign ventures and covered the entire private sector.²⁵ Even if there was a surge in the establishment of Party cells within businesses, a significant obstacle toward Party-building remained, which was that private business owners were still not accepted as Party members. This obstacle remained until Jiang Zemin presented his theory of the “three represents” (三个代表) in July 2002. The theory, which had the purpose of allowing private entrepreneurs to join the Party, removed the previous obstacle against Party presence in private companies and was followed by a wave of Party-building within the private sector.

While the private sector was thriving during the 1990s, SOEs struggled to be profitable since the planned economy held so few incentives to be so. The company law introduced corporate governance and brought on pivotal changes designed to increase the profitability of SOEs. Typical corporate roles, such as a CEO and a board of directors, were gradually introduced, thus advancing a corporate form of organisation more similar to POEs. The central theme of SOE reforms has thus been corporatisation, coupled with reforms that clarify political governance. Even though corporatisation was introduced, Party leadership remains a key role in SOE corporate governance and decisions. By law, the owners of SOEs are the Chinese people.²⁶ However, the *de facto* owner is the government, as in practice the ownership rights are delegated to the state. These leadership rights have therefore traditionally been exercised with Party representation. From the introduction of corporatisation, a “twin governance structure” emerged that involves the coexistence of corporate and political governance within SOEs. Up to the present day, despite corporatisation, SOEs are still mainly controlled through political governance.²⁷

The objective of political governance in SOEs is to maximise social welfare, in contrast to maximising shareholder wealth. The SOE's CCP-dominated system is characterised by Party leadership, which sets economic, social, and political objectives and establishes how to fulfil these goals.²⁸ The Party exercises lead-

25 中共中央组织部 [Central Organization Department of the CCP]. 关于在个体和私营等非公有制经济组织中加强党的建设工作的意见, (2000年9月13日)中组发[2000]14号 [Opinions on Conducting Party Building Work in Individual Household Businesses and Private Enterprises, Central Organization Department Document No. 14, 2000].

26 中华人民共和国全民所有制工业企业法 [Law on Industrial Enterprises Owned by the Whole People]. 1988年4月13日第七届全国人民代表大会第一次会议通过, 根据2009年8月27日第十一届全国人民代表大会常务委会员第十次会议《关于修改部分法律的决定》修正 [Adopted on April 13, 1988, at the First Session of the Seventh National People's Congress, amended according to the 'Decision on Amending Certain Laws' adopted at the Tenth Session of the Standing Committee of the Eleventh National People's Congress on August 27, 2009]. Article 2 of the Law on Industrial Enterprises Owned by the Whole People states, “The properties of the enterprises belong to the whole people; the state grants the enterprise to manage the properties according to the separation of ownership and control”.

27 Lin, Institutionalizing political influence in business, p. 446; Xiankun Jin, Liping Xu, Yu Xin & Ajay Adhikari. Political governance in China's state-owned enterprises. *China Journal of Accounting Research*. 15: 2 (2022): pp. 1 and 8. <https://doi.org/10.1016/j.cjar.2022.100236>.

28 Jin, Xu, Yu & Adhikari, Political governance in China's state-owned enterprises, pp. 1 and 8.

ership through different mechanisms, one of which is through the internal Party organisations of the SOE. Leading Party members groups (党组), according to the Constitution of the CCP, are “to play a leadership role” and “discuss and decide on major issues of the enterprise.” The primary-level Party organisations (基层组织) — Party cells and Party committees – shall also “support the board of shareholders, board of directors, board of supervisors, and managers in exercising their functions and powers,” and “participate in making decisions on major issues in the enterprise.”²⁹ It is, however, a great challenge when the role of Party leadership is in the role of the company’s political lead and must be reconciled with the presence of a board of directors as the managerial lead.³⁰ A major problem in SOEs is insider control through corruption, where, for example, state assets are funnelled away. Corruption is most commonly dealt with by enhancing Party leadership with Party-building.³¹

In addition to corporatisation, an even more climactic policy directed at SOEs was adopted. In 1997, the CCP adopted the policy “grasp the big, release the small” (抓大放小). Between 1996 and 2001, about 50,000 small- to medium-sized SOEs were privatised. By the end of 2001, 70 % of industrial SOEs had been privatised either completely or partially.³² About 80 % of all SOEs were restructured as POEs.³³

Even with the development of a bigger private sector in China, SOEs remain an important part of China’s industrial output, accounting for about 40 %.³⁴ SOEs operate in strategically important sectors such as energy, communication, finance, and defence, with their market control protected by China’s negative market lists. These lists are published almost annually and detail which sectors are completely forbidden or limited for private ownership. There are also lists that limit and restrict foreign ownership. The number of items on these lists has diminished greatly throughout the years. In some sectors, where there are no more restrictions, SOEs have still remained the biggest players since they were the only actors from the start, and they maintain a sector dominance that hinders newcomers from gaining market share.

29 Constitution of the CCP (中国共产党章程), Chapter 5, Article 33, 2nd Paragraph.

30 Lin, Institutionalizing political influence in business, p. 447.

31 Ibid. pp. 448–449.

32 Bruce J. Dickson. Integrating Wealth and Power in China: The Communist Party’s Embrace of the Private Sector. *China Quarterly*. 192 (2007): pp. 835–836. doi:10.1017/S0305741007002056.

33 Chang-Tai Hsieh & Zheng Michael Song. Grasp the Large, Let Go of the Small: The Transformation of the State Sector in China, *Brookings Papers on Economic Activity*. (2015): p. 297. <http://www.jstor.org/stable/43684105>.

34 See for example Qunhui Huang & Yu Jing. State-owned enterprises in China: their reform process, performance efficiency and future road. *China Political Economy*. 2: 2 (2019). <https://www.emerald.com/insight/content/doi/10.1108/cpe-10-2019-0022/full/html>.

3.2 Mixed ownership and Party-building

Another reform introduced diversified ownership into SOEs. The first sign of the reform came in 1999, when the CPC Central Committee released the “Decisions on Several Important Issues Regarding Reform and Development of State-owned Enterprises,” which encouraged ownership diversification through several forms, such as public offerings and joint ventures (JV).³⁵ As of 2012, more than 1,000 state-controlled companies had been listed and the proportion of non-state-owned shares in these listed companies exceeded 50 percent on average.³⁶

Since 2013, a centrepiece of SOE reform has been the mixed-ownership policy.³⁷ Mixed-ownership policy encourages state-owned companies to invest in private companies and vice versa. The goal of encouraging private companies to invest in state-owned companies is to improve profitability and corporate governance in the state sector by leveraging expertise from the more dynamic private sector, aiming to address the inefficiency and losses of SOEs.³⁸ Mixed-ownership reform also encourages SOEs to acquire stakes in POEs, so-called reverse mixed ownership. As discussed below, this is a way to increase Party-state control over POEs.³⁹

While encouraging mixed ownership through POE investment in SOEs, several other reform measures were undertaken.⁴⁰ One such set of reforms was presented in a guiding opinion that aimed to strengthen Party-building in SOEs.⁴¹ These two sets of reforms, involving mixed ownership and Party-building, are inter-related. The CCP describes reinforcing Party leadership as essential for introducing the mixed-ownership reform, aimed at ensuring continuous Party control.⁴² The guiding opinion declares that the rule of law is a key principle for the SOE reform. Since Party-building efforts must comply with corporate law, Party organisations were to be given legal status in corporate governance. The guiding opinion expressly required all SOEs to incorporate Party organisations into their official governance systems by writing relevant provisions into their articles of association.⁴³

35 中共中央关于国有企业改革和发展若干重大问题的决定 [Decision of the CPC Central Committee on Several Major Issues Concerning the Reform and Development of State-owned Enterprises] (Adopted at the Fourth Plenary Session of the Fifteenth Central Committee of the Communist Party of China on September 22, 1999)].

36 Jin, Xu, Xin & Adhikari, Political governance in China's state-owned enterprises, p. 13.

37 关于国有企业发展混合所有制经济的意见 [Opinions of the State Council on the Development of Mixed Ownership of SOEs].

38 Beck and Brødsgaard, Corporate Governance with Chinese Characteristics, pp. 486–508.

39 Beck and Brødsgaard, Corporate Governance with Chinese Characteristics, pp. 486–508.

40 See Lin, Institutionalizing political influence in business, p. 449.

41 中共中央、国务院关于深化国有企业改革的指导意见 [Guiding Opinions of the CPC Central Committee and the State Council on Deepening the Reform of State-Owned Enterprises]. 24 August 2015.

42 Lin, Institutionalizing political influence in business, p. 450.

43 Guiding Opinions of the CPC Central Committee and the State Council on Deepening the Reform of State-Owned Enterprises, art. 24.

This was not generally implemented, however, until Xi Jinping gave a speech in the Party-Building Work Conference of SOEs in October 2016, where he stressed the leadership role of the Party and that clarifying the legal status of the Party organisations is a necessity.⁴⁴ Xi Jinping explained how to understand “Chinese characteristics” in the “modern state-owned enterprise system with Chinese characteristics” (中国特色现代国有企业制度) and clarified their legal status within the corporate governance structure. Party leadership should be integrated into all aspects of corporate governance and the internal Party organisations should be embedded within the corporate governance structure.⁴⁵ Thus, “Chinese characteristics” signifies integrating the Party’s leadership into all aspects of corporate governance. Following this explanation, several SOEs codified an operational role for their internal Party organisations into their articles of association.⁴⁶ Subsequently, the State-Owned Assets Supervision and Administration Commission (SASAC) and the CCP Central Organisation Department issued several notices and opinions requiring SOEs to add the legal status, responsibilities, meeting procedures, and funding sources of the Party organisation into the articles of association. The first SOEs to make these amendments were the wholly state-owned ones, while mixed ownership SOEs with a minority state capital were given some leeway in how these Party-building provisions should be designed.⁴⁷ Adding a role for the CCP in corporate governance was later made binding via a specific Party regulation, promulgated in January 2020, regarding SOE Party organisations.⁴⁸ Thus, the Party organisations within SOEs already had roles granting them the right to actively participate in an enterprise’s decision-making process. However, this additional regulation introduced another element of political signalling, emphasising the importance of their function.

44 Lin, Institutionalizing political influence in business, pp. 449–450; Xi stresses CPC leadership of state-owned enterprises. (Xinhua net, 11 October 2016). http://www.xinhuanet.com/english/2016-10/11/c_135746608.htm (Accessed 2024-10-31).

45 习近平：坚持党对国有企业的领导·必须一以贯之 [Xi Jinping: Insisting on the Party’s Leadership of State-owned Enterprises Must be Consistent]. 搜狐 [Sohu] (13 April 2019). https://www.sohu.com/a/307762296_364628 (Accessed 2024-10-29).

46 Livingston, The New Challenge of Communist Corporate Governance, p. 4; 郭克军、胡冬阳 [Guo, Kejun, Hu, Dongyang]. 国企党建工作进章程——路径及机制分析 [Path and Mechanism Analysis – State-owned Enterprises Party Building Work enters the [Corporate] Charter] (Zhonglun Law Firm, 2017.) <https://www.zhonglun.com/research/articles/6627.html> (Accessed 2024-10-17).

47 Lin, Institutionalizing political influence in business, pp. 451–452.

48 中共中央印发中国共产党国有企业基层组织工作条例（试行） [Regulations on the Work of the Primary-level Party Organizations of State-Owned Enterprises of the Chinese Communist Party (for Trial Implementation)]. (2019年11月29日中共中央政治局会议审议批准 2019年12月30日中共中央发布) [(Approved by the Political Bureau of the CPC Central Committee on November 29, 2019 and issued by the CPC Central Committee on December 30, 2019)], Art. 13.

3.3 Increasing the role of the CCP in POEs

The requirement to establish a Party organization in POEs has been applicable since 1993; however, it could be argued that it was not strictly enforced until 2012. At that time, the CCP Central Organisation Department released a document about improving Party-building in non-state enterprises.⁴⁹ Following the publication of this document, and subsequent proposals of actions, the expectation that private businesses with Party members should have Party organisations led to a surge in their creation.

In recent years, following the SOE reforms mentioned above, there have been several reforms to strengthen the CCP's role in POEs. Just as for SOEs, the specified regulations regarding Party organisations are found in the CCP Constitution. The current reading of the CCP Constitution specifies, in Chapter 5, Article 30, that organisations, including privately owned businesses, are required to set up a Party cell if the organisation has at least three Party members. Chapter 5 of the CCP Constitution targets all grassroots-level Party organisations. FOEs are not specifically named, but are encompassed by the term POE, regardless of whether they are joint ventures or wholly foreign-owned enterprises.

Article 33, Paragraph 3, of the same chapter states that in non-public enterprises, the Party organisation shall “implement the Party's principles and policies, guide and oversee their enterprises' observance of state laws and regulations, exercise leadership over labour unions, Communist Youth League organisations, and other people's group organisations, promote unity and cohesion among workers and office staff, safeguard the legitimate rights and interests of all parties, and promote the healthy development of their enterprises.” These stipulations are the same for the different kinds of internal Party organisations, such as Party cells or Party committees, in POEs. The number of members does not affect the degree of control over corporate governance. This can be compared with the same article's second paragraph, which prescribes the role of Party organisations within SOEs, where the organisations, for example, shall “participate in the decision-making of major issues of the enterprise.” Hence, the CCP Constitution makes an important distinction between the Party organisation's role in SOEs and POEs.

According to Article 34, grassroots-level party organisations in all types of organisations are also “responsible for directly guiding, managing, and overseeing Party members.” Well worth noting is that regulations formulated in the CCP Constitution exist in a separate legal sphere parallel to the state legal system under the PRC Constitution, which are binding for Party members and organisations, but not for non-Party entities such as commercial enterprises. Some companies might therefore push back against attempts to increase Party influence in their business,

⁴⁹ Opinions on Strengthening and Improving Party Building in Non-state Enterprises, (CCP Central Committee, (2012).

as they are technically not legally required to accept such influence under the state legal system. Livingston discusses whether this could lead the Party to push for the inclusion of more CCP control in the companies' articles of association, since, according to PRC law, adhering to these articles is a legal requirement.⁵⁰

One reform that specifically affects listed POEs was the issuance of a revised version of the China Securities Regulatory Commission's (CSRC) "Code of Corporate Governance for Listed Companies" on September 30, 2018.⁵¹ One of the key changes in this revised version was its Article 5, which requires majority state-controlled listed companies to incorporate Party organisations into their articles of association and urges all listed companies to establish Party organisations according to the Company law.⁵² There is no difference between the content of the article and what is already prescribed in Article 19 of the Company Law. Considering the size of listed companies, it is highly unlikely that a listed company would not fulfil the requirement of having three party members. However, it sends a signal about the importance of Party-building in listed companies and can be understood as a requirement in practice to employ Party members and give Party organisations roles in the company. Further emphasising the message is the fact that the article also requires listed companies where the state is the controlling shareholder to incorporate Party-building work into the articles of association according to the Company law and its associated regulations. In practice, this regulation affects only Chinese companies since there is presently very little permitted foreign ownership on mainland stock exchanges.⁵³ Even so, the change clearly shows the trend towards strengthening the CCP presence within POEs and not just in SOEs.

The trend towards more CCP control over POEs has also been expressed in speeches where the central leadership has called for private entrepreneurs to show loyalty to the Party. For example, in a speech at the Private Enterprise Symposium in November 2018, General Secretary Xi Jinping said that "Private entrepreneurs must cherish their own social image, love the motherland, the people, and the Communist Party of China, practice the core socialist values, promote entrepreneurship, and be models of patriotism, dedication, law-abiding operations, entrepreneurship and

50 The Company Law of the PRC, Art. 11 ("Articles of association shall be formulated according to law when a company is incorporated. The articles of association of a company shall have binding force on the company, its shareholders, directors, supervisors and senior managers."); Livingston, *The New Challenge of Communist Corporate Governance*, p. 4.

51 The CSRC is a government agency directly under the State Council. In November 2022, it stated its role as being to build "a capital market with Chinese characteristics."

52 上市公司治理准则. [Code of Corporate Governance for Listed Companies in China]. Promulgated by CSRC and effective by 30 September 2018.

53 FOEs make up about 5% of listed companies according to Joris Mueller, Jaya Wen and Cheryl Wu, *The party and the Firm*, (Preliminary Draft) December 6, 2023. https://www.jorismueller.com/working_papers/ccp/.

innovation, and give back to society.”⁵⁴ Livingston underscores another recent sign that the CCP’s presence has moved into the POE realm: references to the “modern *state-owned* enterprise system with Chinese characteristics” have diminished and been successively replaced with the term “modern enterprise system with Chinese characteristics,” where the word “state-owned” has been omitted.⁵⁵ This omission suggests an expansion of the width of Party leadership within corporate governance, reaching into the private sector as well.⁵⁶

Many of the policies governing the CCP’s business influence are first implemented in SOEs, and are gradually implemented, step by step, in POEs. Naturally, if there is a change the Party wants to see in businesses in general, its implementation is probably met with less resistance in SOEs where the Party already exercises leadership. As an effect of indirect influence, after having normalised a certain practice among businesses, the resistance in POEs could be further weakened. Similarly, the mixed ownership reform is another means for the Party, through its control over SOEs, to strengthen influence in POEs also through indirect ownership.⁵⁷ SOEs are therefore important for understanding Party influence not only in SOEs themselves, but also in POEs.

As mentioned above, an operational role for Party organisations within SOEs became obligatory in January 2020. In September the same year, the CCP issued a regulation directing its United Front Work Departments (UFDs) to “guide” POEs to “improve their corporate governance structure and explore the establishment of a modern enterprise system with Chinese characteristics.”⁵⁸ UFDs exist at all levels within the Party hierarchy, both in and outside of China, with the purpose to “co-opt and neutralise sources of potential opposition to the policies

54 习近平：在民营企业座谈会上的讲话 [Xi Jinping: Speech at the Private Enterprise Symposium]. 新华网. [Xinhua net]. 1 November 2018. http://www.xinhuanet.com/politics/2018-11/01/c_1123649488.htm (Accessed 2024-10-29).

55 中共中央关于坚持和完善中国特色社会主义制度 推进国家治理体系和治理能力现代化若干重大问题的决定 [Decision of the Central Committee of the Communist Party of China on Several Major Issues Regarding Upholding and Perfecting the Socialist System with Chinese Characteristics and Promoting the Modernization of the National Governance System and Governance Capability]. (5 November 2019); 郝鹏接受中央主流媒体采访 谈当前中央企业发展态势 [Hao Peng Accepted an Interview with the Central Mainstream Media to Talk about the Current Development Trend of Central Enterprises]. 国务院国有资产监督管理委员会 [State-owned Assets Supervision and Administration Commission of the State Council, SASAC] (11 August 2020). <http://www.sasac.gov.cn/n2588020/n2877938/n2879597/n2879599/c15343606/content.html> (Accessed 2024-10-29).

56 Livingston, *The New Challenge of Communist Corporate Governance*, p. 4.

57 More on SOE indirect ownership of POE, see Chong-En Bai, Chang-Tai Hsieh, Zheng Michael Song & Xin Wang, *The Rise of State-Connected Private Owners in China*. (National Bureau of Economic Research, 2020). doi:10.3386/w28170

58 General Office of the CCP Central Committee. Opinions Concerning Strengthening United Front Work in the Private Economy in the New Era; For a translation, see Scott Livingston, *The Chinese Communist Party Targets the Private Sector* (CSIS, 2020), <https://www.csis.org/analysis/chinese-communist-party-targets-private-sector> (Accessed 2024-10-18).

and authority” of the CCP and oversee non-Party organisations.⁵⁹ One part of the UFWDs’ umbrella structure is the All-China Chamber of Industry and Commerce (ACFIC). The ACFIC is both a mass organisation and a chamber of commerce and exists under the leadership of the UFWD.⁶⁰ Shortly after the issue of the UFWDs’ regulation, the vice chairman of the ACFIC, Ye Qing, held a speech calling for the building of a “modern private enterprise system with Chinese characteristics.” According to Ye, the Party organisation within the company should have control over decisions made in human resources as well as monitor internal behaviour and carry out audits. He also asked that the CCP clarifies the Party’s role in the corporate governance structures of POEs.⁶¹ It remains to be seen how the expanded role of the UFWD will affect private businesses.

59 For more about UFWDs, see, for example Alexander Bowe, *China’s Overseas United Front Work: Background and Implications for the US* (U.S.-China Security and Economic Review Commission, August 2018). <https://www.uscc.gov/research/chinas-overseas-united-front-work-background-and-implications-united-states> (Accessed 2024-10-17).

60 Mass organisations are CCP-controlled social organisations with the aim of being a bridge to society. Some of the more prominent include the All China Federation of Trade Unions (ACFTU), the All China Women’s Federation (ACWF), and the Communist Youth League (CYL). David C. Lee. Legal Reform in China: A Role for Nongovernmental Organizations. *Yale Journal of International Law* 25: 2 (2000).

61 叶青：推动党的领导制度体系与民企治理体系有机融合 [Ye Qing: Promote the Organic Integration of the Party’s Leadership System and Private Enterprise Governance System]. 中华全国工商业联合会 [All-China Federation of Industry and Commerce] (17 September 2020). https://www.acfic.org.cn/bhjj/ldzc/zxfzx/yq/yqgzhd/202009/t20200917_60940.html (Accessed 2024-10-18).

4. Party influence in businesses in practice

HAVING ANALYSED THE CONTENT of state laws and intra-party regulations in Chapter 3, we now turn to how Party influence plays out in practice. Party influence is analysed through three different dimensions: ownership, party organisation presence, and political signalling. The questions explored include how state ownership functions in private companies; the extent of private companies' compliance with the Party-building policies; the number of companies that have actually established party cells; and the attitudes business owners have expressed toward Party influence.

4.1 Ownership

While the party does not formally own private companies, its control of state-owned companies is extensive. The CCP can exercise influence indirectly through state-owned companies' ownership in private companies. This was made possible through the mixed ownership reform, as described in Chapter 3. This section explores mixed ownership in practice.

Mixed ownership and “golden shares”

When the mixed ownership reform was launched in 2013, the focus was on increasing the flow of private capital into SOEs in order to improve market discipline and corporate governance.⁶² The opposite, SOEs acquiring stakes in POEs rather than POEs investing in SOEs, has been termed *reverse mixed ownership*. This policy allows SOEs to gain varying degrees of influence in POEs depending on their share. Since the introduction of the reform, SOE investments in listed private companies have increased, and many successful companies “received significant investment from state-connected firms.”⁶³

In a study about state connection within private enterprises in China, Bai et al. argues that the distinction between privately owned and state-owned has become

62 Lin & Milhaupt, *Party Building or Noisy Signaling?* p. 188.

63 Beck, *Reforming the Chinese State Sector*, p. 271.

increasingly blurred. State owners increasingly invest in large private companies, who in turn invest in smaller private companies. The net effect is that the Chinese business world is neither completely state-owned nor completely privately owned but is rather a grey zone with mixed ownership. Being state-connected might provide benefits for POEs within certain sectors, such as providing access to industries that are state-dominated. It is also possible that the reason for the growth of this connected sector reflects the CCP's desire to have more control. Bai et al. argue, however, that this idea of desiring more control is inconsistent with several factors, such as the fact that the share controlled by state owners has fallen and does not explain why private owners also increasingly invest in other private companies.⁶⁴

As the mixed ownership reform was being introduced, a special management system (特殊管理股制度), known as “golden shares,” was also proposed.⁶⁵ Their function and use have been clarified through later reforms and opinions that target specific sectors such as media companies.⁶⁶ When first proposed, it was a way to encourage state companies to give up majority stakes in media companies, but ensure that the state would not completely lose control. Golden shares give the state the right to a seat on the board of directors and decision-making rights even with very small minority posts in a company. The system is described as conducive to the strengthening of ideological management and adhering to the correct direction, the improvement of the modern enterprise system, and the development of a mixed economy.⁶⁷

In recent years, the state has acquired golden shares in some big private tech companies.⁶⁸ In contrast to the state-owned media companies mentioned above, these companies were not originally state-owned. In 2021, Beijing ByteDance Technology, the main Chinese entity of TikTok's owner, ByteDance, sold a 1 % stake to a company fully owned by the Chinese government. The purchase also gave the Chinese government the right to appoint a CCP official, Wu Shugang, as one of three board directors at Beijing ByteDance Technology. Wu was given

64 Bai, Hsieh, Song & Wang, *The Rise of State-Connected Private Owners in China*, pp. 12-14.

65 中共中央关于全面深化改革若干重大问题的决定（2013年11月12日中国共产党第十八届中央委员会第三次全体会议通过）。[Decision of the CPC Central Committee on Major Issues Concerning Comprehensively Deepening Reform (Adopted at the Third Plenary Session of the 18th CPC Central Committee on 12 November 2013)].

66 金雪涛 [Jin, Xuetao]. 我国传媒领域有效推进特殊管理股制度的思考 [Thoughts on effectively promoting the special management share system in my country's media sector]. (中国共产党新闻网) [(CCP News Network)]. (6 December 2019). <http://theory.people.com.cn/n1/2016/1206/c83865-28928486.html> (Accessed 2024-12-10).

67 中共中央, 国务院关于深化国有企业改革的指导意见（2015年8月24日）。[Guiding Opinions of the CPC Central Committee and the State Council on Deepening the Reform of State-Owned Enterprises] 24 August 2015.

68 Lingling Wei. China's New Way to Control Its Biggest Companies: Golden Shares. *Wall Street Journal*. (8 March 2023). <https://www.wsj.com/articles/xi-jinpings-subtle-strategy-to-control-chinas-biggest-companies-ad001a63> (Accessed 2024-10-17).

the authority to control the content on ByteDance's Chinese media platforms.⁶⁹ Other examples of the Chinese government's acquisitions of golden shares include subsidiaries of IT giants Tencent, Alibaba, and Weibo. The Party-state's purpose in acquiring golden shares in key high-tech and media companies is so that it can maintain direct supervision of the companies' activities.⁷⁰

The Party used to care mainly about traditional key sectors, such as steel and oil, leaving some, such as the technology sector, outside its control. Now the Party-state wants to have a say in how these sectors, such as new hi-tech and AI, are shaped and considers them as strategic parts of the economy. According to Beck, "Some areas are red lines. If you have enough data on individual Chinese users or the financial situation, then you risk ending up in a situation where this simply is so critical, so strategic, that it cannot be privately controlled. The same thing happened to some extent to ride-hailing platform Didi Chuxing. They have a lot of data of how Chinese move around, including officials; perhaps in that case you need a golden share."⁷¹

The use of golden shares has thus evolved from being concerned about the fear of losing control through the privatisation of SOEs, into being a tool to use when the state wishes to gain influence in important POEs. Golden shares are one piece of the mixed ownership reform. The development of the mixed economy through investments alongside personal connections creates the possibility of situations where state involvement in the private sector is not obvious.

In sectors where the market is dominated by SOEs, mixed ownership could be used to provide access to resources and connections for POEs. One representative of a Swedish company said that POEs often refrain from competing with SOEs due to their access to different benefits. This is the same for both foreign and Chinese companies. The interviewee explained that it is always important to have a good relationship with the Party in general when doing business in China, but it is even more important when a POE is selling to an SOE as a customer or cooperating in some way. "Many feel like the SOEs are becoming bigger, stronger, and more important." It might therefore be beneficial for a POE to adapt according to the mixed ownership reform, depending on the sector.⁷² Some Swedish company representatives saw golden shares as an obvious sign of the CCP's taking greater control

69 The CCP's control over ByteDance and TikTok has been thoroughly documented in a submission to the Australian Senate: Rachel Lee, Prudence Luttrell, Matthew Johnson & John Garnaut. *TikTok, ByteDance, and their ties to the Chinese Communist Party* (Submission to the Senate Select Committee on Foreign Interference through Social Media, 2023).

70 Ryan McMorro, Qianer Liu & Cheng Leng. China moves to take 'golden shares' in Alibaba and Tencent units. *Financial Times*. (13 January 2023). <https://www.ft.com/content/65e60815-c5a0-4c4a-bcec-4af0f76462de> (Accessed 2024-10-17); Wei, China's New Way to Control Its Biggest Companies: Golden Shares.

71 Interview 5, February 2024.

72 Interview 3, February 2024.

over POEs. “Golden shares ownership only affects a few companies so far, but it feels a bit like a test case, that the CCP surely wants to increase the numbers.”⁷³

One interviewee said that it is not surprising that this is happening during Xi’s rule. However, forcing a seat on the board might have a negative effect on business. Up until now, the Party has not given a good reason why they should get a seat on the board of directors.⁷⁴ Another interviewee believed that just one seat on the board does not make much difference, since it is only one voice among others, and that it therefore would not have any real effect on business decisions.⁷⁵

According to one interviewee, new policies often sound worse in China than they are intended to be in practice. “When China issues policies it is never black and white, there is always a grey area. . . There were some signals that the Party wanted to have, in certain companies, Party members in the board of directors. Honestly speaking, I don’t know of any. In all of the entities that we have, we have never been approached by someone asking us or pushing us or making it mandatory to have someone on the board.”⁷⁶

4.2 Party organisation presence

As discussed above, several recent policies have been pushing for Party-building and increased Party presence within businesses. These policies have not simply been received with open arms. A general mistrust among business owners regarding the weakening of their own authority within the business and the increased representation of the CCP has acted as a barrier against the establishment of Party cells within the private sector. This mistrust has a foundation in the fact that the CCP has traditionally had absolute power within SOEs. To resist this mistrust, the CCP has allowed more business owners to become members of the CCP and also presented Party cells within private companies in a way that is more business-orientated and less political.⁷⁷

In order to reframe the image of Party cells as more business-friendly organisations, the CCP has pushed the narrative that Party cells serve as resources for business leaders. This includes taking on roles similar to a human resources department, addressing employee well-being, mediating workplace conflicts, and assisting with hiring, rather than engaging in the company’s strategic work. In this sense, Party cells are portrayed more like Party-affiliated union clubs, focussing on supportive

73 Interview 2, January 2024.

74 Interview 2, January 2024.

75 Interview 7, February 2024.

76 Interview 4, February 2024.

77 Xuan He. Inside the Communist Party’s Private Sector Push. *Sixth Tone* (10 May 2021). <https://www.sixthtone.com/news/1007414> (Accessed 2024-10-17).

functions within the workplace. A way to increase incentives to establish Party cells has also been to show that Party members work harder and more efficiently than non-Party members. Some companies, such as Didi Chuxing, specifically hire Party members to serve as role models for safety assurance, a move that should also be seen as a way to placate criticism from the authorities.⁷⁸ In addition to making Party cells into an attractive function for the employers, the CCP is also attempting to make the activities of the Party cells as attractive as possible for the employees. The activities often have a political theme, officially, but can be recreational in practice. Examples of recreational activities that Party cells regularly engage in include sport events, song competitions, speech competitions, sightseeing tours, and even blind dates.⁷⁹

Party organisation prevalence

Information on the prevalence of Party organisations in Chinese companies differs between sources. In 2018, the CCP Organisation Department reported that Party organisations in POEs had increased from 58.3% in 2013 to 73.1% in 2017.⁸⁰ However, statistics from ACFIC published in 2019 stated that the share of private companies that have established party organisations had increased from 27% in 2002 to 48% in 2018.⁸¹ The difference between the two reports may come down to whether companies that have no party members are included or not.⁸² According to other figures released by the CCP Organisation Department since then, the total number of party organisations in companies (企业基层党组织) was 1.6 million in 2023, up from 1.47 million in 2019, but lower than the 1.87 million reported in

78 Sarah Dai. Didi plans to hire more Party members in China to act as customer service role models amid safety overhaul. *South China Morning Post* (18 October 2018). <https://www.scmp.com/tech/article/2168938/didi-plans-hire-more-party-members-china-act-customer-service-role-models-amid> (Accessed 2024-10-17).

79 Yan & Huang, *Navigating Unknown Waters*.

80 新华网[Xinhua web], 2017 年中国共产党党内统计公报 [2017 CCP internal statistical report], (30 June 2018), <http://dangjian.people.com.cn/n1/2018/0630/c117092-30097506.html> (Accessed 2024-10-18); Pearson, Rithmire, & Tsai, *Party-State Capitalism in China*, p. 209; Interview 5, February 2024.

81 何轩、张映瑜、肖伟诚、马骏 [Xuan He, Yingyu Zhang, Weicheng Xiao & Jun Ma]. 我国民营企业党组织建设现状分析报告 [Analysis report on the current situation of party organization construction in private enterprises in our country]. China International Chamber of Commerce for the Private Sector. (2019). <http://www.ciccps.org/News/Shownews.asp?id=1311> (Accessed 2024-10-17).

82 Jerome Doyon. CCP branches out into private businesses. *East Asia Forum*. (11 August 2023). <https://doi.org/10.59425/eabc.1691748055>.

2017.⁸³ These figures are difficult to interpret since they indicate a decrease between 2017 and 2019, but there have not been any reported cases of private companies disbanding their party organisations.

Another way to study the Party's presence in companies is whether they have adopted Party-building provisions. Lin and Milhaupt examined the prevalence of Party-building provisions in listed SOEs and POEs between 2015 and 2018. As expected, since Party-building provisions are mandatory for SOEs, they found that they were far more common in SOEs than in POEs. Almost 90% of SOEs had established Party-building provisions. In POEs, only 6% of the listed companies had adopted the provisions. However, the authors point out that since the policy is not directed towards POEs, the fact that 6% had voluntarily enacted these provisions is a sign that the distinction between SOEs and POEs is becoming increasingly blurred. According to them, the results show that "POEs have engaged with the Party-building program principally as a means of signalling fealty to the CCP without acceding to institutionalised Party involvement in corporate governance."⁸⁴

In a related study, Lin also found that the numbers of companies adopting Party-building provisions are increasing, and that the number of foreign-backed companies who had set up internal Party organisations doubled between 2011 and 2016. Party organisations are said to "aid foreign companies' business and development by helping them better understand government policies and by guiding them in obeying the country's laws and regulations." The Company Law, which requires the establishment of said organisations, does not stipulate a role for them in the corporate governance structure. The functions have usually been limited to meetings and social events. Private- and foreign-invested companies were therefore less concerned about establishing these organisations before the 2015 SOE reform. This concern peaked in the fall of 2016, when all SOEs were required to write these Party organisations into their articles of association. Many foreign-invested companies involved in joint ventures with SOEs were asked to give the organisations formal decision-making roles.⁸⁵

Mueller (et al. 2023) studied annual reports and company charters from 4089 listed companies between 2011 and 2021 and found that since 2017 there had been a sharp increase in political signalling. By 2021, more than 27% of listed firms mentioned Xi Jinping while approximately 15% mentioned the phrase "Socialism

83 中共中央组织部 [Central Organization Department of the CCP] 中国共产党党内统计公报 (2018-2022) [Chinese Communist Party Internal Statistic Report]. Reports for the years 2012-2018 available at <https://www.12371.cn/2019/06/30/ARTI1561860413392572.shtml>. Various years 2019-2023 are separately available at: Year 2019: <https://www.12371.cn/2020/06/30/ARTI1593514894217396.shtml>. Year 2020: <https://www.12371.cn/2021/07/01/ARTI1625095152631426.shtml>. Year 2021: <https://www.12371.cn/2022/06/29/ARTI1656486783270447.shtml>. Year 2022: https://www.gov.cn/xinwen/2022-06/29/content_5698404.htm Year 2023: <https://www.12371.cn/2024/06/30/ARTI1719715269079269.shtml>.

84 Lin & Milhaupt, *Party Building or Noise Signaling*, p. 190.

85 Lin, *Institutionalizing political influence in business*, pp. 458–460.

with Chinese Characteristics for a New Era” or had adopted Party-recommended operations and personnel rules. This phenomenon was more prevalent in SOEs than in POEs and least among companies with partial foreign ownership. Among the latter, 7.1 % mentioned Party cells and 4.6 % allocated funds to Party cells.⁸⁶

One interviewee discussed Party organisation presence within Chinese companies in China. “The Party has always wanted to have a presence in the business world, but it was more distanced from it than during the 1990s when the private sector grew.”⁸⁷ Another interviewee pointed out that just because an internal Party organisation is not present in a company’s documents, it does not mean that there is no CCP presence. If the CCP’s interest, whether locally or centrally, were to focus on a company developing something of interest to the CCP and becoming part of a critical industry, the Party organisations within that company would likely expand suddenly and significantly. These organisations exist not primarily to serve the company’s interests but rather to advance the CCP’s own objectives.⁸⁸

According to Beck, the Party’s presence in POEs varies widely. Only a minority of companies with internal Party organisations have rules prescribing that the board of directors consult the Party organisation before making major strategic decisions. “Those companies that have these types of more extensive integration of their Party organisation into their core business are usually companies that already have some type of growth collaboration with SOEs or operate in sectors that are heavy in SOEs. They are usually larger types of companies.” Factors such as sector, size, and likely what type of POE it is from an ownership perspective cause the variation.⁸⁹

Of course, Party presence does not guarantee Party influence. Colin Hawes points out that “it is inaccurate to say that having a CCP branch in a corporation is evidence of Party or government control of the firm.”⁹⁰ Instead, he argues that it is the private business or the individual entrepreneur that benefits from the relationship rather than the Party. Since members of the Party branch are financially dependent on the company rather than the CCP, they have a financial incentive to place the firm’s interests first.⁹¹ This view of the limited relevance of Party organisations in POEs is mirrored in many of the interviews with Swedish company representatives.

However, there is an abundance of research showing that Party-organisation involvement in fact often has effects on POE governance. Party involvement in

86 FOEs in this case Mueller, Wen & Wu, *The Party and the Firm*.

87 Interview 2, January 2024.

88 Interview 8, May 2024.

89 Interview 5, February 2024.

90 Colin Hawes. *The Chinese Corporate Ecosystem*. (Cambridge University Press, 2022).

91 *Ibid.* p. 38.

POE governance has been shown to result not only in increased corporate innovation,⁹² but also a positive correlation of social insurance with POEs that have a Party branch and unionization,⁹³ and that POEs with a Party branch are more likely to provide stable jobs and sign labour contracts.⁹⁴

In a study based on data from 2004 to 2015, Zheng, Xie, and Yuan find that when POEs have established a Party organisation and, in particular, have a CEO who is a Party member, there is a significant reduction in the company's earnings management (i.e., the company's deliberate use of accounting techniques to make its financial reports look better). The authors explain how the supervision of POEs by Party organisations is part of a centrally led national network: "Once a privately controlled enterprise has set up a Party organisation, the organisation is like a 'nerve ending' of [the] CCP because the Party organisation needs to fulfil its tasks, report regularly to its leading higher party organisation, and is under the supervision of the higher party organisation. The national network of Party organisations and the network of enterprises have become an integrated dual network."⁹⁵

The CCP, as well as many of the Chinese-based scholars involved in this research, portray CCP influence in POE governance as something desirable, as it is often shown to improve corporate governance. However, for those who are concerned about political influence in Chinese private companies, a major takeaway from the research is the strong evidence of the CCP's influence on those businesses, even when the outcome for the company is improved corporate governance.

In contrast, some research shows that Party presence can have a negative impact on POE performance. There is surprisingly little research on how political influence affects the profitability of firms. One exception is a recent paper by Zhang and Liu that examines the effects of mixed-ownership reform of listed private companies from 2013 to 2020. The authors find that POEs that have experienced nationalisation, defined as a state ownership of more than 5 percent, experienced a significant decline in profitability. One of the different mechanisms explaining this decline is the establishment of a party organisation that came with the SOE's investment.⁹⁶ Declines in firm performance were more substantial in POEs that had not established party branches prior to nationalisation than in firms that had

92 Xiaoyue Liu, Jingyun Zhou, You Wu & Na Hao. The Influence of Party Organization Involvements in Corporate Governance on Innovation: Evidence from China's Private-Owned Enterprises. *Sustainability*. 14 (2022).

93 Zhiqiang Dong, Zijun Luo & Xiahai Wei, Social insurance with Chinese characteristics: The role of communist party in private firms. *China Economic Review*, 37 (2016): pp. 40–51.

94 Youliang Yan & Xixiong Xu. The role of communist party branch in employment protection: Evidence from Chinese private firms. *Asia-Pacific Journal of Accounting & Economics*. 29: 6 (2022): pp. 1518–1539. <https://www.tandfonline.com/doi/full/10.1080/16081625.2021.1878909>.

95 Dengjin Zheng, Deren Xie & Wei Yuan. The CPC party organization in privately controlled listed companies and earnings management. *China Journal of Accounting Studies*. 7: 2 (2019): p. 274.

96 The other three explanatory mechanisms were a decrease of productive workers, an increase in tax burdens, and a relaxation of financial restraints.

already established party branches.⁹⁷ The authors explain that “after nationalisation, shareholders representing state-owned capital will enter the POEs and may set up Party branches, women’s federations, youth leagues, and other Party organisations, employing employees to engage in Party affairs full-time.” In addition, the authors argue that state ownership also leads to the hiring of relatives and other “connections” (*guanxi*) who enjoy high salaries, resulting in increased wage costs and reduced management efficiency.⁹⁸

Party members in leading positions

Another way that the Party may influence POEs is through the individual CCP membership of company leaders. It has been documented that many business owners and leaders of POEs are also Party members. Some of them were originally CCP cadres who decided to “jump into the sea” (下海) and start a business, bringing all the political influence and connections that came with their original work position. Others have joined the Party because they are successful entrepreneurs. As an example, consider the revelation in 2018 that Alibaba founder Jack Ma is a CCP member.⁹⁹ Party membership brings political connections, which can be used for business purposes. According to a 2021 report by the CCP Organisation Department, 64% of Party Committee Secretaries in POEs have high management positions in their companies.¹⁰⁰ Research has shown that Party membership of private entrepreneurs has a positive effect on the performance of their firms as it helps them obtain loans from banks and affords them more confidence in the legal system.¹⁰¹

According to Beck, when a company reaches a certain size, it is not possible to be completely independent from the Party. Even without formal control, there

97 Yufei Zhang & Deqiang Liu. *Partial Nationalization and POE Performance: Empirical Evidence from China's Mixed-ownership Reform*. Unpublished Working Paper. (March 2024). p 26. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4737473.

98 *Ibid.* p. 13.

99 Adam Jourdan & John Ruwitch. Alibaba’s Jack Ma is a Communist Party member, China state paper reveals. *Reuters*. (27 November 2018). <https://www.reuters.com/article/idUSKCN1NW09C/> (Accessed 2024-10-18). <https://www.reuters.com/article/idUSKCN1NW09C/>.

100 以高质量党建助推非公企业高质量发展——党的十八大以来非公企业党建工作综述 [Promoting high-quality development of non-public enterprises with high-quality party building—A review of party building work in non-public enterprises since the 18th National Congress of the Communist Party of China]. 新华社[Xinhua news]. (9 June 2021). https://www.gov.cn/xinwen/2021-06/09/content_5616434.htm (Accessed 2024-10-29).

101 Simon Denyer. Command and control: China’s Communist Party extend reach into foreign companies. *Washington Post*. (28 January 2018). https://www.washingtonpost.com/world/asia_pacific/command-and-control-chinas-communist-party-extends-reach-into-foreign-companies/2018/01/28/cd49ffa6-fc57-11e7-9b5d-bb0da31214d_story.html (Accessed 2024-10-18).

will be a continuous dialogue between the Party and management.¹⁰² It is thus possible that business decisions can be influenced without a need for formal control.

Clearly, CCP membership and Party connections bring benefits to the firm, but it can simultaneously strengthen the CCP's influence. Since Xi Jinping came to power, the CCP has stepped up pressure on Party members to show loyalty to him and the Party. In later years, the Party's campaign has expanded to non-Party entities in order to embed its values into society.¹⁰³ This way, increased control and surveillance over Party members can indirectly affect non-Party entities, such as private companies.

Party presence in foreign companies

Regarding FOEs, there are no public records or statements on the prevalence of Party cells or the adoption of Party-building provisions in the articles of association. However, some data is available from publicly listed companies.

In Mueller's (et al.) examination of a sample of 4089 listed companies between 2003 and 2022, 238 (5.8%) were categorised as distinct foreign-owned companies.¹⁰⁴ Since this sample is based on publicly listed companies, foreign ownership is capped at a maximum of 30%.¹⁰⁵ One example is the Bank of Nanjing, in which one of Europe's largest banks, French BNP Paribas, holds a minority post of 15.68%.¹⁰⁶ In Mueller's (et al.) study, the Bank of Nanjing was assessed to be the company with the most substantial party influence. Its annual report from 2022 stated that it gave "full play to the role of the Party Committee in corporate governance."¹⁰⁷

According to a Chinese media report, Mercedes-Benz China, a joint venture company of Mercedes-Benz, had already established a Party Committee in 2013. The author Lu Ning points out that "foreign companies naturally have to gradually adapt to and integrate into China's political culture and finally recognise and respect China's political culture. The specific 'Party culture' is precisely one of the core qualities of the political culture with Chinese characteristics."¹⁰⁸

102 Interview 5, February 2024.

103 Jean Christopher Misselstaedt. Party-Building through Ideological Campaigns under Xi Jinping. *Asian Survey*. 63: 5 (2023): pp. 716–742.

104 Mueller, Wen & Wu, *The Party and the Firm*.

105 E-mail conversation with Joris Mueller, April 4, 2024.

106 Market Screener, <https://www.marketscreener.com/quote/stock/BANK-OF-NANJING-CO-LTD-6499776/company/>, accessed April 4, 2024; Ailin Zhou, "Bank of Nanjing jumps as BNP Paribas Looks set to Raise Stakes in Chinese Lender," *Yicai Global*, May 17, 2022. <https://www.yicai.com/news/bank-of-nanjing-jumps-as-bnp-paribas-looks-set-to-raise-stake-in-chinese-lender>.

107 南京银行2022年度报告[Bank of Nanjing, annual report 2022], p 64.

108 鲁宁：跨国巨头开始认同中国“政党文化”[Lu Ning, Transnational giants begin to identify with China], 观察[Observer], April 24, 2015, https://www.guancha.cn/LuNing/2015_04_24_317099.shtml?web. This case is also discussed in Livingston, 2021.

Joint ventures were specifically targeted with separate regulations concerning the establishment of Party cells in parallel with the Company Law. Wholly foreign-owned enterprises have not faced the same pressure.¹⁰⁹ The discussion about Party influence in FOEs and JVs was sparked in late 2017. At the time, a press release from the European Union Chamber of Commerce in China (EU Chamber) stated that there were some cases where SOE partners in JVs had suggested that the Party organisation should have formalised roles in the JV's governance structure and that its articles of association should be revised to give the Party a decision-making role in all of the JV's significant matters. This development was a cause of concern for the EU Chamber, since it would change the governance structure of JVs and undermine the authority of their boards. Under the Company Law and the Equity Joint Venture Law, the board of directors is the JV's highest authority and responsible for all its key matters; thus, this would be a fundamental change that could cause European companies to be deterred from further investing in JVs.¹¹⁰

Following the Central Office of the CCP's release of the "Opinions on Strengthening the United Front Work of the Private Economy in the New Era" (Opinions), on September 15, 2020, the EU Chamber published a press release sharing their stance on the matter. In the press release, the EU Chamber states that it understands that the Party organisations as required by the Company Law play no role in decision-making. The cause for concern is not the organisations themselves, but rather the Party's involvement in business decision-making. The Opinions raise concern that the Party will push to establish or strengthen its positions in the private sector. In turn, this creates a worry that the Party would take steps in this direction every few years. Almost half of the respondents of the EU Chamber's yearly business-confidence survey reported in 2023 that the business environment had become more political than the previous year, which is a development the Opinions only exacerbates.¹¹¹ Moreover, the potential influence of the CCP on European businesses may also have indirect implications. Private companies could be driven to incorporate more political calculus into their decision-making instead of following market forces. Clause Eight in the Opinions calls for the development of a "backbone of private businesspeople that can be relied on at critical moments," which, according to the EU Chamber, would likely lead to worsening the situation for private firms by adding fuel to the voices from those in the US and EU that assume that all Chinese companies are heavily influenced by the Party.¹¹² Similarly, in congressional testimony in 2023, the FBI director

109 Denyer, Command and control.

110 Chamber Stance on the Governance of Joint Ventures and the role of Party Organisations. The European Union Chamber of Commerce in China. Press release. (3 November 2017).

111 Business Confidence Survey 2023. The European Union Chamber of Commerce in China. pp. 37.

112 European Chamber Stance on United Front Work in China's Private Sector. The European Union Chamber of Commerce in China. Press release. (12 October 2020).

Christopher Wray said that CEOs of US companies in China are afraid to speak up against the establishment of Party cells and that they have no choice but to comply.¹¹³ Apparently, some foreign companies go even further. In an interview in the podcast *Pekingology*, December 10, 2020, Joerg Wuttke, former EU Chamber of Commerce President in Beijing, said that, “I am always stunned when I see that foreign companies allow this to happen, that the Party cell has an operational say in major things,” although the law does not require it, in order for the company to develop good relations with the Party.¹¹⁴

Experiences of Party organisations in Swedish companies

Interviews with Swedish company representatives produced a variety of answers and confirm that there is no commonly established truth about how prevalent the phenomenon of Party organisation is. While some did not think their companies had a Party organisation at all, others acknowledged its existence but had little knowledge of what it was actually doing. None of the company representatives voiced any concern regarding the Party organisations’ operations.

One interviewee discussed the prevalence of Party organisations from 30–40 years ago to the present. The interviewee expressed no concern about Party cells and concluded that there were previously more requirements for Chinese employees to study political thought. “The existence of Party cells in businesses — it has always been that way — but often it has been an internal Chinese concern even at a foreign and Swedish company. It is nothing that has concerned the operational activities of the business. . . They have probably been established in patches. And still today it is not at all certain that they exist in all companies.” Thinking back to the 1980s, due to the requirement that foreign companies rent their Chinese employees from a government fund, the Chinese staff “all had their political study meetings on Saturday afternoons, which they were not that pleased with. It has always been there. . . but it has not been so noticeable after 1993.”¹¹⁵

One representative of a large company described Party cells as a hot topic around 2018. “It was then said that the CCP demanded seats in boards, influence in strategic decisions, even in joint ventures and even where the Chinese had a minority stake.” Two cases of this type of influence had been found. According to them, “there was probably a confusion of concepts, since Party cells had always

113 Communist Party cells influencing U.S. companies’ China operations, FBI Director Wray says. *CNBC*. (12 July 2023). <https://www.cnbc.com/2023/07/12/communist-cells-influence-companies-in-china-fbi-director.html>.

114 *Pekingology*. The State Advances, The Private Sector Retreats. [Podcast interview]. (14 November 2024). *CSIS*. The quote appears 19 minutes, 47 seconds in to the episode. <https://www.csis.org/podcasts/pekingology/state-advances-private-sector-retreats-0> (Accessed 2024-11-25).

115 Interview 2, January 2024.

been there and they are a prerequisite here.” They expressed a pragmatic view of Party cells. “The absolute majority [think] that the Party cells are something positive for the companies, that the Party in China is a little like the Swedish trade union, that it wants the good for the companies, so many thought that the Party or Party representatives had been an asset when, for example, you had to deal with difficult personnel issues.”¹¹⁶

One interviewee, who also represented a large company, expressed similar confusion between the concepts of Party organisations and trade union clubs. This individual stated that they were unaware of the existence of any Party organisation in the company but knew that a trade union club was present. The company does not inquire about Party membership, and the interviewee had never been approached with a request to establish a Party organisation. They acknowledged the possibility that a Party organisation could exist without their knowledge. Despite its primary focus on organising social activities, the trade union has occasionally played a role in the company by assisting as a mediator during a work conflict between employees.¹¹⁷ The other representative of a large company also described Party organisations as social clubs, and trade union clubs, which also have a connection to the Party, even more so.¹¹⁸

The only legally recognised trade unions in China operate under the guidance of the All-China Federation of Trade Unions (ACFTU). These unions do not function as trade unions typically do in democratic systems, where they primarily serve the interests of workers. Instead, they face the conflicting role of serving both the state and the workers. According to the Constitution of the CCP, Party organisations are tasked with leading trade unions, which may contribute to the confusion between the different internal organisations. As a result, the distinction or overlap between these clubs can vary in practice across different enterprises. Not asking staff about Party membership seems to be common among the companies. According to one owner of a small (10–20 employees) company, they were not aware that any of their staff were Party members and it is not something they ask their staff about. Since they are a small company, they would notice any political interests among the employees. The interviewee also speculated that this might be related to the age of the employees, considering that younger Chinese people tend to show less interest in politics.¹¹⁹

However, some companies seem to discuss membership more openly. Another owner of a company of very similar size said that about a third of the staff, many of whom had been in the company for a long time, are Party members. In the area, there is an active local Party committee, which had encouraged them to start a Party

116 Interview 7, February 2024.

117 Interview 4, February 2024.

118 Interview 7, February 2024.

119 Interview 6, February 2024.

organisation, and their staff had also asked them to start a Party organisation. “We gladly did it, because we want to have good relations with this group [i.e., the local Party committee], and they are mostly harmless in our view.” They reasoned that since they are not dependent on them, establishing a Party cell can only be a good thing, possibly creating some good networking. “It feels like a box-ticking exercise.” The interviewee made the point that even though acknowledging that they had no idea what the Party organisation reported to the local Party committee, there were no secrets to report. “Since there is such a control apparatus anyway, we just assume that everything we say can be recorded.” The interviewee also mused about the times before and after the establishment of the Party organisation. Before establishing the Party cell, they thought that if somebody high up in the Party would ask an employee about their operations, they would simply answer regardless of whether they were organised or not. “I don’t think [it] changes the fundamental thing, which is that they are very powerful, and they can use this power if they want to. I think this is a way for [the CCP] to organise themselves smarter and better and to create a sense of daring to stand for it. . . It used to be a bit shameful to be a Party member previously because the most successful in society were not Party members, but now they are proud of it and dare to take up space. . . But in terms of practical matters for us, there is no influence at all on any important decisions.”¹²⁰

According to Beck, Chinese companies are “much more aware of their [internal Party] organisation and the purpose that the Party serves inside of their company. It is not an ambiguous thing.” In Chinese POEs, Party membership and affiliation is something to be proud of. He had also noticed an overlap between a Party member’s position in the Party and their position in the company, which is something often seen in SOEs. “If they take care of the organisation department affairs in the Party organisation. . . they might also be the HR director.”¹²¹

Apart from the example of the member organization finding that a Party organisation was attempting to affect decision-making in the business, none of the interviewed company representatives had experienced anything similar themselves or knew of any other cases. Party presence was generally considered harmless for business decision-making, but whether they actually could affect business decisions in some cases was widely discussed. In the words of one interviewee, “It is a bit like Jesus: everybody has heard of him, but nobody has seen him.”¹²²

The interviews generally revealed that company representatives were aware of the presence of Party organisations. One interviewee firmly stated that businesses in China are themselves completely aware of this and do not have a naïve approach. “. . . Media and think tanks. . . exaggerated a problem and put this problem in a

120 Interview 3, February 2024.

121 Interview 5, February 2024.

122 Interview 8, May 2024.

geopolitical context. . . I also believe that the West's understanding of the role of the Party in this society is exaggerated and that is unfortunately also because of China's own, or the Party's own, inability to communicate in an understandable way. The way the Party communicates creates questions and even fear for the uninitiated. Even if that is not the intention, that is often the way many feel.” The interviewee was annoyed by the clumsiness of the authorities' communication, which can generate both ridicule and fear. It also reflects the difficulty in translating Chinese terms to English.¹²³ Hence, to many Swedish business representatives, the main problem with Party presence is the suspicion it creates outside China rather than its impact on doing business in China.

4.3 Political signalling

Political signalling is a constant phenomenon that business leaders in China have to relate to. It involves all the formal and informal means the Party can use to show its intentions. This includes laws, policies, and regulations, but also speeches from national and local leaders and published propaganda. In the current centralised political environment, any statements or policy changes from Xi Jinping constitute powerful political signals about what is politically correct behaviour. Some companies may proactively make changes, such as more actively promoting Xi Jinping's thought in company documents, in order to gain advantages in their relations to government agencies. Adding certain Party-building provisions in the company might therefore be a symbolic action, rather than a new practice.

One example of strong signalling from the top-leadership was when the government introduced a number of new policies directed at certain sectors, including financial technology and private education, in 2021. The regulations, referred to domestically as the regulatory storm, aimed to deal with some of the structural problems in these sectors. However, there was also a political message in the crackdown aimed at reminding some of the powerful big tech companies such as Alibaba and Tencent that the Communist Party was in charge. The hard-handed policies had a dramatic economic effect on the tech sector and billions were lost when investors left the companies and their values fell.¹²⁴

Another mechanism that the government uses to make sure that companies follow the law is the Corporate Social Credit System (CSCS). Similar to the general social credit system that is used to monitor and evaluate citizen behaviour and legal compliance, the CSCS gives companies different ratings based on a number of criteria such as finance and taxation, governance, compliance, and social

¹²³ Interview 7, February 2024.

¹²⁴ Daniel Fu. Political Drivers of China's Private Sector Demise. *China Brief*. 23: 16 (2023).

responsibility. A recent study in Zhejiang province by Lin and Milhaupt found that companies that are politically connected and that contribute to CCP prioritised aims receive higher credit scores than other companies. This way the CSCS can be a political tool to steer companies' behaviour.¹²⁵

It should also be noted that private companies in China are not inherently against Party influence. Many companies, especially big successful companies, have succeeded because they have fostered close relations to the Party, be it at national or local level. They generally see the Party's presence as a natural part of doing business in China. "In order to be successful in a country like China, you need to be attentive to the political signals, as they both cause problems for business but also create new business opportunities."¹²⁶

This point was also raised by many of the Swedish company representatives. The fact that the CCP completely dominates politics and society is of course something that is a starting point when doing business in China. Several interviewees expressed that they frequently come into contact with the Party because the CCP is ever present throughout society. Many companies do business with SOEs, where the Party connections are evident. In order to do business in China, especially in manufacturing, having good relations with the local government is crucial. However, since this is to be expected in China, it is not perceived as politicising the business or exerting pressure to do or express certain things. Many Swedish companies believe that the worry about risks in connection to the Party is exaggerated back at headquarters.¹²⁷

Politicized business environment

The business environment in China has always included the Party as a factor. It is not so much about internal Party organisations influencing some type of strategic decision in a foreign company, but rather an "overall requirement to be politically compliant." According to Beck, no matter whether a company is a POE, FOE, or SOE, all companies are supposed to fill the role of supporting the Party's ambitions and are "expected to support and follow directions of policies."¹²⁸

A company representative pointed to the fact that even if you operate very independently, there is no way to be in China without having some sort of dialogue with different Party representatives. "You cannot get away from the fact that you have to have contact with governmental authorities. You have to have contact with different parts of the Party, even as a foreign company. That is because a large

125 Lin and Milhaupt. *China's Corporate Social Credit System*, pp. 835–853.

126 Interview 1, December 2023.

127 Interview 1, December 2023.

128 Interview 5, February 2024.

amount of essential decisions are taken through Party structures.” One company might be in contact with different Party structures in the same area, and these Party structures tend to communicate poorly amongst themselves, resulting in variations in the level of political zeal on an individual and provincial level.¹²⁹

Another company representative stated “I believe the world has been quite naïve about China’s possibilities to listen to and get information about anything they want. I believe. . . this naivety has started to diminish, but in total the world is probably still a bit naïve. At the end of the day, everything that happens [in China] is on their terms.”¹³⁰

Even though Swedish companies considered political presence to be a constant factor in China, the country’s changing political environment was equally obvious. A recurring theme from the interview respondents is that over time, the overall business environment has become more controlled, more sensitive, more nationalistic, and more bureaucratic. At the same time, the view on China from Sweden, other EU countries, and the United States has become harsh and suspicious. A similar nationalistic and protectionist sentiment is therefore unfolding in parallel, which means that companies that have a foot on both sides need to handle sentiments that might provoke conflict for the business.

There have been cases where a political signal has been sent by punishing certain businesses. Companies that oppose political positions might be imposed with significant costs, such as in the case of the state-initiated boycott of H&M due to their refusal to use Xinjiang cotton. In an NKK report about consumer boycotts, Bohman and Pårup argue that “the boycott of H&M was first and foremost part of China’s response to the Western sanctions on Xinjiang officials. By imposing a significant cost on one of its critics, China demonstrated the breadth of potential consequences that could befall companies that oppose its political positions.”¹³¹

Another sign of the increasingly politicised environment was reported in February 2023. The accounting firm EY in Beijing asked employees who were Party members to wear their Party badges at work to show their political loyalty. In general, Party members are supposed to wear their Party badges at work, but compliance is generally not strict, especially in private companies. While EY is owned by the company’s partners in the country and hence not strictly an FOE, it is one of the first internationally affiliated companies in China to ask its employees to wear Party badges at work. This was in response to a directive that had been received

129 Interview 2, January 2024.

130 Interview 3, February 2024.

131 Viking Bohman & Hillevi Pårup. *Purchasing with the Party*. Swedish National China Centre. Report no 2 (2022). p. 20.

shortly before the yearly meeting of the National People's Congress, which is a politically sensitive event.¹³²

Some interviewees said that some of Xi Jinping's political changes have had negative effects on the investment environment. According to one company representative, excluding all foreign audit companies from the state sector is "counter-productive for the Chinese themselves, but the biggest political influence probably comes from home," referring to their company headquarters. According to them, many of the big companies keep investing in China and consider it an important market in the long run, but because of geopolitical tension and how media exposure is mainly negative, these investments are not talked about.¹³³

Another interviewee expressed that the Party has become more openly present in society, and this has made people more concerned about their business and personal integrity. One example is the anti-espionage campaign, which has been described as an effort to increase the engagement of the public, calling for a "whole of society mobilisation" against espionage.¹³⁴ "Citizens have been made more aware. . . and [the CCP] is much more confident in showing that "we decide, and there is no one else." However, in practice there have not been many big changes made. The question in other words is, What is the next step?"¹³⁵ This follows similar conclusions from companies in other European countries. In a survey about European business confidence in China, made by the EU Chamber, 55 % responded that China's business environment had become more politicised during the last year (2024). This is a slight decrease from responses to the same question in 2023, when 59 % responded that the business environment had become more politicised. In 2022, the figure was 50 %. In 2023, nearly two-thirds of the respondents who found that the environment has become more politicised perceived the Chinese government as the main source of the increased political pressure.¹³⁶ There can be several reasons behind this perception and in the ways that political pressure affects business. In the 2024 survey, the EU Chamber stated that when respondents answered the previous year's survey, the zero-COVID policy posed severe challenges to business operations.¹³⁷

132 Leng Cheng & Ryan McMorro, EY China staff encouraged to wear Communist party badges, *Financial Times*. (27 February 2023).

133 Interview 8, May 2024.

134 Vivian Wang. China to Its People: Spies Are Everywhere, Help Us Catch Them. *New York Times* (2 September 2023). <https://www.nytimes.com/2023/09/02/world/asia/china-spies-campaign.html>.

135 Interview 3, February 2024.

136 Business Confidence Survey 2023, European Union Chamber of Commerce in China, p. 37.

137 Business Confidence Survey 2024, European Union Chamber of Commerce in China, p. 30.

Benefiting from political influence

Even though all interviewees perceived some level of increased Party control over the private sector, there was less agreement on the extent to which this was a cause for concern. Not all interviewees saw the CCP's influence as a problem, and some found ways to benefit from it. One interviewee said that it is obvious that the CCP, or Xi Jinping, wants to control the private sector, but this is less of a cause for concern because the private sector is so crucial, and foreign innovation is an absolutely necessity for the economy.¹³⁸ Another company representative asked: "What would the Party want to do that would harm businesses? The Party knows that its survival depends on the country becoming strong economically, technologically, militarily, and scientifically, so the Party has no desire to weaken any of this."

The same company representative also said that companies often use Party connections. "If you have come very far in society, you often are a Party member, and it is like an exclusive club helping each other with connections, education, and information, which actually means this sort of presence helps companies to become even stronger."¹³⁹

Another company representative agreed, but with less certainty, that having a person connected to the Party in an important position might provide certain advantages, such as in different business negotiations. This individual explained that this advantage is probably less significant for European companies compared to Chinese companies, as they have other stakeholders to answer to. At the same time, companies may not focus much on political influence but rather on what is necessary to obtain certain permits, which could require some political calculation.¹⁴⁰

One interviewee mentioned another example of how FOEs can find the Party organisation useful. A company with slightly less than 5000 employees was facing heavy losses due to a situation of serious mismanagement where the local government and local Party committees were looking to take part of the company's earnings. This company was able to receive help from its own internal Party organisation to establish a dialogue with the provincial government for their support and help in the situation. "Without this dialogue, I believe it would have been very difficult to get out of that process in one piece." The informant also provided an example of how it is common to have a meeting with the local tax bureau to discuss how to plan taxes, something that would be inconceivable in Sweden. "However, there is nothing fundamentally unethical about it. There is no exchange of gifts, but you discuss your case, and you get advice. Hopefully, you follow their advice and then things go well. In return they get face value and possibly a small piece of

138 Interview 6, February 2024.

139 Interview 7, February 2024.

140 Interview 1, December 2023.

the cake, instead of having a conflict.” This interviewee reasoned that the internal Party organisation functions in a similar way. They get to be a part of the solution. “If you choose to exclude [them], the problem becomes bigger, even if you legally are in the right, it is more difficult to get out on the other side without extensive efforts and economic losses.”¹⁴¹

In an increasingly politicised business environment, good relations with the Party become even more important. All entrepreneurs in China, domestic and foreign, are aware that the terms under which they conduct business are decided by the Party. Political signalling provides the Party with extensive means to influence private businesses. It is the Party, not the companies, that decides how and to what extent this influence is used.

141 Interview 8, May 2024.

5. Conclusions

THIS STUDY EXAMINES TWO questions: What means of influence over private businesses do state laws, intra-Party regulations and policy documents give to the CCP? and: How is CCP influence over businesses exercised in practice? We address these questions in the previous two chapters. This concluding chapter sums up the findings in Chapters 3 and 4 and ends with some notes on the consequences of these findings.

Regulatory means of influence

The requirement of establishing a Party organisation in a company if it has at least three Party members has been codified in state law and Party regulations since 1993. Its implementation within the private sector has, however, been unclear through the years. Since Xi Jinping's appointment as the CCP general secretary in 2012, the Party has enacted several laws and regulations and published a number of documents, thereby gaining new means to influence private businesses. The 2013 mixed ownership reform encouraged POEs to invest in SOEs and vice versa. Through SOE ownership in POEs, the CCP gains access to indirect influence over POEs based on its strong influence in SOEs.

In 2018, majority state-controlled listed companies were required to incorporate Party-building work into their articles of association, and all listed companies, including POEs, were obligated to establish Party organisations according to the Company Law. Moreover, in 2020, it became binding for all SOEs to allow the CCP a role in corporate governance. The same year, in a measure explained by Xi Jinping as a way to signify Party leadership, another CCP Central Committee Opinion further directed the UFWD to guide POEs to establish a “modern enterprise system with Chinese characteristics.”

The Party and state regulations produced within these last 12 years clearly show the development of closer and more evident ties between the CCP and businesses. There are still important differences in the Party's influence in SOEs and POEs; for example, SOEs have embedded political governance, where the Party organisation is represented on the board, while no such rules exist for POEs. However, as shown, policies regulating POEs are often modelled on SOE policy.

CCP influence in practice

The study examined how and to what extent the CCP uses ownership, party organisation presence, and political signalling to influence private businesses. The mixed-ownership reform has resulted in a large number of SOEs acquiring stakes in POEs. This indirectly gives the party more influence over POEs, sometimes when it is a minority post. The most obvious cases are government “golden shares” in high-tech companies such as ByteDance, Weibo, and Tencent. Golden shares were also highlighted by some of the interviewees as one more direct aspect of the CCP’s influence over businesses.

According to law, all private companies with CCP members must establish party organisations. The extent to which this law has been implemented is not entirely clear; however, most large private companies have party organisations. While many observers claim that Party cell and Party committee activities are limited to social activities and have little influence over corporate governance, there is also abundant research showing that Party organisation presence in POEs on an aggregate level affects corporate governance.

So far, there is no evidence that similar patterns of party organisation influence of corporate governance exist in FOEs. According to the Swedish company representatives interviewed in the study, Party organisation activities are strictly Party-internal and have no impact whatsoever on the companies’ business activities other than the use of work time by Party members to engage in Party activities. Considering the sensitivity of the subject, however, it is possible that more active CCP influence would not be mentioned by respondents and it is likely that companies with such experience would refuse to be interviewed.

CCP membership among company managers represents another possible way for the CCP to influence POEs. Many entrepreneurs actively seek to become party members in order to gain political influence, which can help their businesses thrive. However, as the Party continuously tightens ideological and political control of its members, they might become more incentivised to adapt companies’ activities to be more in line with the intentions of the CCP.

The overall influence that the Party exercises over POEs through political signalling is substantial. Chinese as well as foreign companies have to be constantly aware of changes in the political environment. Through new legislation and the publication of Party documents and speeches by leaders, the CCP leadership signals that private entrepreneurs must follow the leadership of the Party. This message has become ever clearer and stronger during Xi’s reign.

Swedish company representatives emphasised that the fact that the CCP completely dominates politics and society is something that is a starting point when doing business in China and was seldom raised as problem. However, they acknowledged

that the political changes in recent years, including political centralisation and increasing nationalism, were the political factors most affecting businesses.

For private entrepreneurs, Chinese as well as foreign, increased Party influence in the form of ownership, party organisation presence, and political signalling, may not necessarily be seen as a problem as long as it does not affect firm performance negatively. After all, the interests of the Party mostly go hand in hand with the interests of the firm. Current research on the impact of Party presence in POEs reveals a mixed picture of how it affects corporate governance. Nevertheless, it is clear that CCP influence over private businesses is not only symbolic but also substantial, and that it has increased since Xi Jinping came to power. The political consequences of the CCP's influence on POEs would be more critical in cases where the interests of the CCP and the firm do not align. Under the personalist leadership of Xi Jinping, Chinese politics has become less predictable than previously. Perceived threats from societal actors, including influential entrepreneurs, against Xi's authority and that of the CCP have been brutally suppressed. If Xi were to embark on a policy contrary to the business interests of private companies, which some argue he has already shown an inclination to do, he would have numerous means to enforce CCP influence over companies and ensure their compliance. In recent years, messages from the Party centre indicate that issues of national security have taken centre stage at the expense of economic growth, and many policy decisions, such as the anti-espionage law, have been criticised as being detrimental to China's business climate.¹⁴² Therefore, CCP influence over private businesses is an issue that will continue to be of crucial importance for China's political and economic development as well as for Chinese companies' activities outside China.

5.1 The consequences of increasing Party influence in Chinese businesses

The consequences of political influence over Chinese companies are in some ways more dramatic for Chinese companies outside China than for companies inside China. As Chinese companies expand their presence far beyond China's borders, the CCP's obsession with political control increasingly clashes with Western ideals of businesses operating relatively free from political influence, especially of the CCP kind. These tendencies have been further exacerbated by global geopolitical tensions, particularly the great power competition between China and the United States. These conflicts are being played out in cases such as the US government's banning of

142 Marina Yue Zhang, China's new anti-espionage law is sending a chill through foreign corporations and citizens alike, *The Conversation*, September 27, 2023. <https://theconversation.com/chinas-new-anti-espionage-law-is-sending-a-chill-through-foreign-corporations-and-citizens-alike-212010>.

TikTok and Huawei's lawsuit against the Swedish state in the International Centre for Settlement of Investment Disputes, the ICSID.¹⁴³

An Australian report investigating CCP ties to TikTok and ByteDance raised concerns about where the loyalty of Party members in a business ultimately lies. "The CCP Constitution stipulates that Party members are required to privilege Party interests and protect its secrets in all circumstances. All Party members take an oath to this effect. In practice, this means the activities of Party cells, committees, and individual members are visible and accountable only to those in the Party organisation."¹⁴⁴ The authors argue that the obligations of secrecy and primacy connected to Party membership "could conflict with legal obligations to disclose information to investors and regulators in rule-of-law jurisdictions."¹⁴⁵

There are also important consequences for foreign companies in China. Swedish companies in China were primarily concerned about the increasing insecurity and lack of predictability in the business environment under Xi Jinping's rule. In the words of one company representative: "It has led to foreign companies not investing as much in China. . . and the fundamental problem is that the basic confidence is missing to do more in China."¹⁴⁶

However, none of the informants interviewed for this study perceived internal Party organisations as a threat to business practices. Several of the informants reflected upon how the advances in the CCP's control have not been quite as dramatic as initially feared by the time the EU chamber expressed concern. A general explanation that informants offered was that China's dependence on foreign investments and businesses likely inhibits the Party from extending its influence into FOEs as that would risk leading to foreign companies leaving China.

Clearly, the CCP's increasing influence over private business in China has important consequences for foreign companies' willingness to invest in China as well as for Chinese companies' investments and business activities abroad. This report confirms many of the concerns expressed by previous research regarding political influence over private business in China. Although one should not assume that Chinese private businesses outside China act as agents of the Chinese Communist Party, the possibility that the Party may pressure individual companies to act in certain ways should be enough to limit these companies' access to sensitive sectors of the economy, such as critical infrastructure or critical technology. There is also a good reason for foreign companies already present in or planning to invest

143 ICSID, Huawei Technologies Co., Ltd. V. Kingdom of Sweden (ICSID Case No. ARB /22/2). <https://icsid.worldbank.org/cases/case-database/case-detail?CaseNo=ARB/22/2>.

144 Rachel Lee et. al. *TikTok, ByteDance and their ties to the Chinese Communist Party – Submission to the Senate Select Committee on Foreign Interference through Social Media*. (14 March 2023), p. 33.

145 *Ibid.* p. 47.

146 Interview 2, January 2024.

in China to take the changing political environment and its impact on businesses seriously. For the Communist Party, national security and the Party's own survival will always trump the interests of private businesses.

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Interview 2 (23 January 2024).

Interview 3 (4 February 2024).

Interview 4 (8 February 2024).

Interview 5 Beck, Kasper Ingeman, Post-doc at Copenhagen Business School. (9 February 2024).

Interview 6 (19 February 2024).

Interview 7 (23 February 2024).

Interview 8 (6 May 2024).

Mueller, Joris, Assistant Professor at the National University of Singapore [e-mail conversation with Almén, Oscar] (4 April 2024).

This study, co-authored by Oscar Almén (FOI) and Hanna Carlsson (NKK), examines the Chinese Communist Party's increasing influence over businesses. First, it analyses how changes in Chinese laws, intra-Party regulations, and policies have created new means for the Party to exercise influence. Secondly, the study examines CCP influence in practice by analysing three dimensions: ownership, party organisation presence, and political signalling. Over the past 15 years, regulatory changes that initially targeted state-owned enterprises (SOEs) have also increasingly affected private-owned enterprises (POEs). Key reforms emphasise mixed ownership and reinforcing Party leadership in corporate governance, blurring the lines between state and private ownership. State ownership in POEs has given the CCP indirect influence, for example, through positions on company boards. There is also research showing that Party organisation presence sometimes affects corporate governance. Political signalling from the Party leadership, emphasising the CCP's leading role and the importance of loyalty to the CCP, pressures businesses to align with Party interests. Available information on foreign-owned companies (FOE), including interviews with Swedish company representatives, reveals a mixed picture. Party influence is less obvious in FOEs than in Chinese companies. Nevertheless, the consequences for foreign companies operating in China are significant, as political control introduces unpredictability, eroding investor confidence. For Chinese companies expanding internationally, the tension between CCP influence and global business norms is even greater.