Welcome to the CPXi: capital, power and Party in China's New Era

By Shawlin Chaw

At the national Chinese Communist Party (CPC) Congress in October, President Xi Jinping cemented his already firm grip on power by bringing in loyalists to the Politburo Standing Committee – while excluding any potential successors – and placing them in key positions in the party and government. The aura of omnipotence Xi had built in his first five years is now locked into the hierarchy from the top to the bottom of the Communist Party edifice. This will be key to shaping the environment for businesses operating in China in 2018.

Words, too, count in the establishment of power. Much has been made of Xi's elevation to the exclusive ranks of Mao Zedong and Deng Xiaoping in having his political thoughts formally enshrined in the CPC constitution while in office. Henceforth, the 'Xi Jinping Thought of Socialism with Chinese Characteristics in the New Era' will define China's next lap of growth more than any preceding political doctrine.

But while Xi may have reached a kind of parity with China's most illustrious leaders, the country he leads has almost nothing in common with the China of Mao and Deng. It has a massively bigger economy (GDP was slightly under USD 1 trillion when Deng passed away in 1997; it is now ten times bigger, at more than USD 11 trillion) and a huge private sector. The exercise of power is dependent not just on structures, but on legitimacy. Keeping the CPC relevant means ensuring the party is both a facilitator of growth and a steward of popular expectations in a land where the benefits of prosperity are far from universal. Xi knows this as well as anyone. His gambit is to keep the economy churning while reasserting party influence to ensure the CPC remains in control even as the populace grows richer and stronger.

So what does this mean for businesses operating in China? Under Xi, China will undoubtedly continue its march on reform and market access. Underlying these promises of liberalisation, however, is more state control and interference in business operations. Such a development brings by now increasingly familiar challenges for foreign companies. These range from the types of products allowed on the market, to higher compliance costs from more stringent environmental and industry regulations, to tougher data protection laws relating to information collection, transfer and storage.

The desire to reinforce CPC control in key economic sectors has been a prominent feature of a number of state-owned enterprise reform documents. In the same vein, the political commitment to grow local industries into national champions has culminated in industrial policies such as 'Made in China 2025' and building of a 'safe and controllable' domestic infrastructure. Beyond the world of business, the Chinese leadership's push for greater ideological controls has triggered calls urging the public to reject 'Western influences' in education, culture and mass media.

Nanjing road, Shanghai (China Photos/Getty Images)

Look to Xi and the CPC

Increasingly, foreign companies in China – not just Chinese- or state-owned – will have to contend with growing calls to install 'active' CPC organisations within their ranks, in the name of promoting party loyalty and ideology. A cadre of freshly minted Xi placemen and women in the CPC hierarchies will look to leverage the party's 89m members throughout the country as the eyes and ears of the party on the ground.

The need to establish 'in-house' CPC groups at companies is not new. Specifically, China's Company Law stipulates that any organisations with three or more members need to have a CPC group in residence. The rule, as it stands for the last 20 years, has mostly been symbolic and lightly enforced. This has meant that the 70% of foreign companies that have acquiesced and done right by their hosts have had little to lose. Although many foreign companies already have such groups, they are neither particularly big nor influential at present. CPC representation in a multinational typically stands at around 3% of its China workforce, compared with CPC membership across China, which currently accounts for 6% of the population.

But the mood has changed. There is sudden enthusiasm and motivation in the CPC to have such groups, with the tone being set from the top by Xi himself. The need for CPC groups will most likely grow from a bureaucratic formality to a requirement that is more purposefully encouraged and enforced. Whether these groups are able to become more active and influential, to the extent of being able to affect day-to-day business decisions and overall corporate strategy, will depend on the seniority of leadership and relative size of these groups versus local operations.

For foreign companies, the pulse to monitor is the function of these party groups: whether they provide a forum for 'study sessions' to expound Xi's ideology, or a conduit for the CPC to exert political pressure on companies, affecting business operations and strategy. An outlier scenario could see incessant calls to localise systems and infrastructure in the last few years evolve into demands for the localisation of management, board and workforce as well. Although currently unlikely, such a development is not beyond the realm of possibility in the next five years under Xi's leadership.

Guests arrive at the annual Baidu World Technology Conference in Beijing (Fred Dufour/AFP/Getty Images)

Moves to protect the CPC's political legitimacy will also accompany increased politicisation of the commercial environment. To this end, Xi will take on populist issues such as corruption with a combination of national legislation and institutionalised processes. Recent developments indicate that there will be no let-up in the hunt for "tigers and flies" – corrupt officials throughout all levels of government – in the next few years. More effective enforcement will come via a National Supervisory Law in 2018, and a nationwide rollout of supervisory commissions that will integrate anti-graft personnel and resources from the party, government and judiciary. Government scrutiny of commercial bribery cases will grow in tandem. Revisions to the Anti-Unfair Competition Law, which come into force in January 2018, have raised maximum fines by 15 times, to RMB 3m (USD 452,000), along with the confiscation of illicit earnings. Revocation of business licences is also likely if the regulators consider the violations particularly serious. These changes add to amendments made to the Criminal Law in November 2015 that punish both bribe-takers and -givers, and forbid the giving of bribes to close relatives of government officials.

Local officials not toothless

A stronger Xi does not mean that local cadres will automatically fall in line. While Xi may have set the tone from the top, the challenges for many businesses remain in the implementation of new directives. Despite attempts at revisions and clarification, most regulations in China continue to be generally vague and open to interpretation. A lack of transparency in enforcement, particularly in more remote locations, further complicates matters. Inconsistent and sometimes politicised investigations by local regulators, which still hold considerable discretionary power, will continue to frustrate many foreign companies.

Legislation like the new cybersecurity law, which came into effect in June 2017, is particularly concerning for foreign companies. Although the law speaks of significant consequences for violators, its scope is very wide and ambiguous in application. Too many regulators are at play with seemingly unclear roles and overlapping responsibilities.

Despite new regulations and a more powerful central government, local officials will continue to exercise considerable power over the most regular and mundane aspects of business operations. It is not Xi that foreign companies deal with on a daily basis, nor the heads of national-level government agencies that sit alongside him in Beijing. It is the local customs officers and quality inspectors at Chinese ports with which foreign companies have to contend to get their goods into China and properly certified. It is the local tax authorities that foreign companies need to placate to avoid being the targets of intrusive audits. Ultimately, it is still officials at the local Administration for Industry and Commerce that have direct say over whether a business licence is granted or renewed.

Going into 2018, there will be noticeably more politics in the Chinese operations of foreign businesses, whether via the influence of CPC workplace committees transmitting Beijing mood music – or potentially something more onerous – or new regulations capriciously enforced. From the capital to the shop floor, it is becoming more important for foreign companies to engage with and understand the intents and motivations of their stakeholders in the face of a political and regulatory landscape that is not just evolving but being actively shaped from the very top.

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