CCP Inc.
The Reshaping of China’s State Capitalist System

AUTHORS
Barry Naughton
Briana Boland

A Report of the CSIS Freeman Chair in China Studies
CCP Inc.
The Reshaping of China’s State Capitalist System

AUTHORS
Barry Naughton
Briana Boland

A Report of the CSIS Freeman Chair in China Studies
About CSIS

The Center for Strategic and International Studies (CSIS) is a bipartisan, nonprofit policy research organization dedicated to advancing practical ideas to address the world’s greatest challenges.

Thomas J. Pritzker was named chairman of the CSIS Board of Trustees in 2015, succeeding former U.S. senator Sam Nunn (D-GA). Founded in 1962, CSIS is led by John J. Hamre, who has served as president and chief executive officer since 2000.

CSIS’s purpose is to define the future of national security. We are guided by a distinct set of values—nonpartisanship, independent thought, innovative thinking, cross-disciplinary scholarship, integrity and professionalism, and talent development. CSIS’s values work in concert toward the goal of making real-world impact.

CSIS scholars bring their policy expertise, judgment, and robust networks to their research, analysis, and recommendations. We organize conferences, publish, lecture, and make media appearances that aim to increase the knowledge, awareness, and salience of policy issues with relevant stakeholders and the interested public.

CSIS has impact when our research helps to inform the decisionmaking of key policymakers and the thinking of key influencers. We work toward a vision of a safer and more prosperous world.

CSIS does not take specific policy positions; accordingly, all views expressed herein should be understood to be solely those of the author(s).

© 2023 by the Center for Strategic and International Studies. All rights reserved.
Acknowledgments

The authors would like to thank Jude Blanchette for making this project possible, and Andrew Polk and Ethan Cramer-Flood for valuable insights throughout the CCP Inc. project’s lifecycle.

This report was made possible through the generous support of the Smith Richardson Foundation.
# Contents

Executive Summary 1
Introduction: Framing “CCP Inc.” 3

1 | From Growth to Greatness: Xi Jinping’s Changing Goals for China 8

2 | The New SOE Corporate Governance System 10
   - *The Communist Party’s Role in Enterprise Decisionmaking* 10
   - *Setting Performance Indicators* 11
   - *Organization and Competition* 13

3 | New Channels for Government Financial Resources 14
   - *Internal Financial Channels of the State Sector* 15
   - *Government Guidance Funds* 15
   - *Manipulation of Capital Markets* 16
   - *Overview of Financial Channels* 17

4 | Institutions of Influence in the Private Sector 19

5 | Behavior: Restraint and Violation of Implicit Norms 22

6 | International Economic Coordination 25

7 | Peripheral Strategies 28

8 | Backlash and Coordination Failures in the International Arena 31
   - *Coordination Failures* 31
   - *Backlash* 32

Conclusion 35
About the Authors 37
Endnotes 38
Executive Summary

What is “CCP Inc.”? At the conclusion of a multiyear project examining China’s state capitalist system, this report distills key observations about the changing nature of China’s domestic economic management and the international behavior of Chinese companies, state organizations, and financiers. Changing national mechanisms for extending Chinese Communist Party (CCP) authority over the economy and a proliferation of new financial institutions underpin a CCP Inc. ecosystem with a unique internal logic and new adaptability to respond to policy shifts. The strength of this ecosystem allows CCP Inc. to compete internationally as a well-resourced group of coordinated actors. However, recent changes to the operation of CCP Inc.—and the external environment in which it operates—foreshadow major challenges for the ecosystem.
Introduction

Framing “CCP Inc.”

“CCP Inc.” is a framework for analyzing and conceptualizing Chinese international economic behavior. Over the past two years, this CSIS project has examined the behavior of Chinese companies, state-owned banks, diplomatic officials, and other party-state actors through five in-depth case studies on different industries and national contexts. These cases provide a substantial empirical foundation for better understanding China’s dynamic state capitalist system. Drawing on this new repository of information, this report explains what CCP Inc. is, how it is changing, and the challenges it poses to the international system.

The project’s detailed case studies are premised on two fundamental ideas: first, that the features of the domestic Chinese economic system are key to better understanding China’s international behavior and, second, that the CCP Inc. system is not static, but rather the outcome of a constant process of adaptation and institutional tinkering. The term “CCP Inc.” evolved in the wake of two related, more general concepts. “Japan Inc.” gained currency during the 1970s to describe the close cooperation in Japan between a few large zaibatsu (major business conglomerates) and government agencies, especially in pursuit of export-driven industrialization. By the late 1990s, China’s rapid growth brought the term “China Inc.” into use, to describe concerted international action by Chinese state-owned firms or as an omnibus term to encapsulate China’s economic success. In both cases, the “Incorporated (Inc.)” term primarily described a pattern of informal coordination based on common national interests and long-term relationships.

“CCP Inc.” is different. This concept describes a system with an intentionally designed hierarchical structure that facilitates coordinated action, as well as elements of informal coordination. It includes state-owned and private firms, and its architecture is designed to allow top Chinese Communist Party (CCP) leaders to achieve priority goals with a wide variety of instruments. As a system, it employs financial tools—some of them highly sophisticated—to achieve some aims indirectly. The system labeled “CCP Inc.” did not grow up accidentally but is the result of careful institutional design, thoughtfully considered and systematically implemented. As the
ambitions of Chinese leaders have soared in the twenty-first century, CCP leaders have given much attention to strengthening and honing the CCP Inc. system. This has been done in part to restrain insider opportunism and corruption and improve efficiency, but also to increase the party’s ability to steer behavior within the corporate sector.

As the ambitions of Chinese leaders have soared in the twenty-first century, CCP leaders have given much attention to strengthening and honing the CCP Inc. system.

Despite this careful and purposeful attention, the system does not always work well. Moreover, Chinese policymakers also, on occasion, subject this system to new and unanticipated types of stress. A critical example occurred in summer 2021, during the “regulatory storm,” when the government introduced policies that severely constrained the actions of a number of China’s most prominent private high-tech firms, notably Alibaba. These “regulatory storm” policies have since become the new normal, with only minor recalibrations. Such abrupt top-down changes—discussed further below—demonstrated clearly that CCP Inc. is not a static institutional setup. Chinese leader Xi Jinping’s actions may have disrupted the internal functioning of the CCP Inc. model—and certainly subjected it to new types of stress—but did not change its basic elements or its fundamental objectives. Indeed, Xi’s increased domestic ambitions show that the fundamental trends producing and sustaining CCP Inc. also produce internal stresses that may provide new opportunities to understand how it works. Since outsiders cannot directly observe the inner workings of CCP Inc., the opportunity to observe the system’s response to shocks like the ones administered by Xi Jinping is especially valuable.

This research project is primarily concerned with the impact of CCP Inc. on international business and, by extension, on international economics and politics. However, to understand the emergence of CCP Inc.—and its difference from vague and informal notions of “China Inc.”—it is essential to understand its institutional basis. These fundamental arrangements are, of course, primarily domestic. The first half of this report therefore examines the domestic institutional foundations of CCP Inc., paying particular attention to changes in the Xi Jinping era. The second half then considers the international behaviors that proceed from the CCP Inc. system, drawing significantly from the case studies conducted for this project. These two very different types of evidence are combined to provide insights into the operation and impact of CCP Inc.

CCP Inc. is rooted in existing Chinese institutions and evolved gradually from the looser “China Inc.” model. This evolution reflects the different demands Chinese leaders have placed on the system, as well as the persistent modifications they have made in pursuit of those demands. As it exists today, CCP Inc. is distinctive in the following dimensions:

1. Under Xi Jinping’s leadership, the CCP has set more ambitious goals that extend far beyond economic growth and profit maximization, explicitly including national greatness and strategic positioning. These goals are not just different, they are broader and more inclusive, incorporating a diverse set of both domestic and international objectives.

2. The expanded CCP agenda includes “market steerage,” not just economic growth. That is, the party now seeks to achieve very concrete and specific economics-related outcomes. Of these, it is prioritizing
high-tech industrial development, but it also aims to shape a broad range of key “strategic” areas. In other words, party objectives are not just “add-ons” that can be analogized to corporate social responsibility or the requirements of a public-interest stakeholder. They include the pursuit of concrete economic and strategic outcomes.

3. Corporate governance institutions in state-owned enterprises (SOEs) have been restructured in ways that dramatically enhance CCP control. These changes specifically enable the party to transmit its goals directly to enterprise leadership.

4. New financial channels have been created that multiply options and substantially enhance leaders’ ability to steer resources toward specific objectives.

5. The CCP has heightened its direct and indirect influence over private businesses. Party leaders have explicitly endorsed “mixed ownership” so that state agencies and enterprises with small equity stakes in private firms have greater visibility into firms’ decisionmaking and more instruments with which to influence their decisions. Leaders and government agencies can then use ownership stakes, along with financial and regulatory tools, to shape a private firm’s decisionmaking to ensure it conforms to party strategic objectives.

Taken together, these five changes mark a qualitative shift away from traditional notions of “China Inc.” or “Chinese state capitalism” and toward a substantially different and more ambitious system. It will become clear that the institutional features sketched here give Chinese leaders the capacity to send a range of policy instructions through the CCP Inc. system. But do they actually do so? Is the system in fact used this way? And if the system is used this way domestically, is it also deployed internationally to achieve strategic goals? Since the internal operations of the CCP Inc. system cannot be observed, there is no straightforward way to prove that this is the case. However, the preponderance of evidence from the case studies performed in this project shows that the goals and institutions created in the CCP Inc. system are almost certainly used in coordinated ways to achieve China’s strategic objectives.

This report first examines the broadest system-level features of CCP Inc., particularly the specific institutionalized elements that can be tracked with relative confidence; these are all domestic institutions and are well documented. It then briefly examines tacit and less explicit elements of coordination within the domestic economy, which appear to have been severely shaken by the sudden “regulatory storm” of summer 2021.

More specifically, Chapter 1 describes Xi Jinping’s shift from “growth” to “greatness” as the ultimate objective of policymaking and argues that this is a long-run driver of the changes in CCP Inc. While the “regulatory storm” and Xi’s other recent disruptive actions were unexpected, they are consistent with his intensification and shift in objectives. Chapter 2 examines the changes in SOE corporate governance that have helped strengthen the CCP Inc. system. These were intentional changes carried out as part of a structural reform. As such, they are intended to reduce agency loss and make the system more efficient, as well as to increase the ability of policymakers to steer market actors. Chapter 3 describes some of the new financial instruments that Xi’s government has created. These complement the strengthening of direct administrative tools within the state sector and allow control to be exerted on a broader canvas. Chapter 4 looks at the way structural reforms have blurred the boundaries between private and state-owned business, again as part of an intentional effort to improve policymakers’ ability to steer private sector activities more effectively. These innovations in governance and finance were already changing the landscape for private business even before the “regulatory storm” of 2021. Chapter 5 concludes the first half of the paper with a more speculative assessment of the role of private business in CCP Inc. It argues that there had, in fact, been a set of norms that governed party-state behavior prior to 2021 and that those norms demonstrated
a degree of restraint by top political leaders. The willingness to abandon this restraint made the events of 2021 troubling and disruptive—and augurs poorly for CCP Inc.

The second half of the paper extends the analysis to the international arena, drawing on case studies to show how the international evidence, though often indirect, provides a lens through which the operation of CCP Inc. can be inferred. Chapters 6–8 make no attempt to summarize these rich case studies, instead drawing on them selectively as a source of insight. The case studies were chosen with sectoral diversity in mind. None of them can be considered “typical,” but they reflect midrange conditions with respect to three important dimensions of host country conditions: government capacity, financial stress, and strength of civil society. This is largely because cases were selected for which significant information was available in public press accounts. This selection process tended to exclude two types of economies: those countries with strong government capacity and little financial stress, who manage their relations with CCP Inc. carefully, producing fewer instances when miscalculations expose the inner workings of the system; and those countries under extreme financial stress and with limited government capacity (such as Sri Lanka or Pakistan), who often provide less information about specific Chinese projects and are less transparent overall. For these reasons, midrange cases were more likely to provide the detailed information sought by the research team.

As Chapter 6 discusses, the cases display abundant evidence of the CCP Inc. ecosystem of related companies at work. Cooperation lies on a spectrum from tight subordination to Chinese state goals (as with space activity in Argentina) to loose coordination of economically interested actors, with private firms playing leadership roles (as with telecommunications in Malaysia and finance in Portugal). Each of the case studies shows evidence of cooperative behavior of the type that characterizes CCP Inc. These can be summarized as (a) firms assisting other Chinese firms that are nominally their competitors to enter international markets; (b) a (seemingly intentionally exploited) division of labor between different kinds of public and private firms; and (c) reliance on a wide variety of funding sources that facilitate rapid expansion while obfuscating the total magnitude of government support.

Chapter 7 draws on case studies to sketch a pattern of international activity that derives from the institutions of CCP Inc. An important aspect of this pattern is what this report labels a “peripheral strategy.” For all the talk of “belts and roads,” the actual pattern that emerges is one of building assets in regions that are peripheral—that is, adjacent to important economic centers and transportation networks but institutionally relatively weak and vulnerable themselves. This pattern holds in Eastern Europe, Asia, and Latin America. The electricity sector provides a telling example of how this works.

Chapter 8 draws together evidence of backlash against CCP Inc. that emerges from the case studies. China’s economic advance has generated negative reactions in many countries, often playing a role in national elections in democratic nations. Ironically, this backlash tends to intensify the peripheral strategy pattern noted in the previous section. Developed countries are more likely to react negatively to the evidence of collusion and noneconomic motives manifested by CCP Inc. actors. In those countries, CCP Inc. behavior has already emerged as a political issue and a significant (if intermittent) liability to party objectives. Less developed countries are often less sensitive to these issues and thus more welcoming to CCP Inc. actors. Indeed, the low prices and subsidization of activity provided by CCP Inc. makes it welcome in nations that struggle with their own financing needs and desperately need infrastructure. Thus, such activity in the periphery is not solely an intentional strategy; it also emerges in an evolutionary process, from the interaction between CCP Inc. opportunism and the vulnerability and poverty of less developed countries, in particular from the inadequacy of their infrastructure.
The final section concludes and brings together different strands. It is clear that CCP Inc. is not a seamless, well-oiled machine that rolls through strategic parts of the world. Rather, it is a complex assemblage of actors who face substantial challenges, two of which are especially important. First is the difficulty of coordinating market actors when the CCP is quite literally changing the rules on a day-to-day basis. These rules shape the actions of qualitatively different actors, so abrupt changes make coordination more complicated and, on balance, more difficult. Second, the character of CCP Inc.’s noneconomic objectives and obvious collusion are creating a substantial backlash in many parts of the world.

However, despite these challenges, CCP Inc. is still a formidable and well-resourced group of coordinated actors. The CCP Inc. ecosystem has an internal logic, consistency, and adaptability that allow it to achieve significant objectives. This report argues that recent changes will make the operation of CCP Inc. more troubled and less successful in the next few years. Yet that does not mean it will pose less of a challenge to a global rules-based order. On balance, that challenge may increase. As Covid-19 fades globally, China will resume and intensify its international activities—including, undoubtedly, by making adjustments designed to strengthen and fortify the CCP Inc. ecosystem.
For decades, analysts understood China as a political economy in which all other policy goals were subordinate to economic growth. This was the hallmark of Deng Xiaoping’s vision for China. “Development is the only hard truth,” Deng famously stated in his valedictory Southern Tour of 1992. In turn, market-oriented economic reform was essential precisely because it was seen as necessary to sustain high-speed growth. With the creation of a market economy after the turn of the century, as well as the end of the special conditions powering “miracle growth,” this set of priorities began to change by 2010 at the latest. Under the leadership of Hu Jintao and Li Keqiang (2002–2012), the priority given to market reform was somewhat lessened, and demands for improvements in social welfare and the physical environment, as well as deeper human capital accumulation, were increasingly heard. Under Xi Jinping, however, these diverse goals have increasingly been subordinated to the drive for national greatness and the strengthened political and ideological hegemony of the CCP.

A key part of these shifts has been the steadily increasing role for techno-industrial policy and the steadily increasing desire to heighten direct government intervention in the economy. Originally introduced in 2006 as part of a vaguely defined effort to find “new growth drivers” and support “indigenous innovation,” the industrial-policy push has gained strength, emphasis, and resources ever since. The 12th Five-Year Plan, promulgated in early 2011, still stated that “development is the key to solving all of our problems,” but declared the intention of the plan was to “make technological progress and innovation the fundamental support for the accelerated transformation of the economic development mode.” What was plausibly a moderate shift in development strategy at first has increasingly become part of the drive to become a great nation, achieve technological primacy, and attain a heightened level of global security.

In a broad sense, the drive for national greatness is consistent with economic growth, since only an economic power can be a global power. But the shift from economic power to national greatness in all dimensions (not
just economic) nonetheless yields three important macro-level changes, which correspond to imperatives that Chinese leaders believe they must pursue.

First, Chinese leaders are not merely more ambitious; they increasingly identify concrete policies and programs that they have determined are consistent with greater national power. While some of these policies are amorphous and constantly redefined (such as the Belt and Road Initiative), many are clearly defined strategic initiatives. These programs show up frequently in the project case studies: Chinese leaders have committed to the Global Energy Interconnection Initiative (Greece); to the cultivation of Portuguese-speaking countries (Portugal); to the support of technical standards that privilege Huawei’s fifth-generation (5G) wireless telecom ambitions (Malaysia); and so on. These policies do not always originate in the ambitions of Xi Jinping and other top leaders; they sometimes emerge from system insiders, such as state-owned utility giant State Grid, who use their direct bureaucratic connections to lobby for their own programs (in this case, long-distance, ultra-high-voltage systems that tie together international power grids). However, they become CCP Inc. policies when they are adopted at the top and stamped with the central leadership’s imprimatur.

Second, because objectives are more diverse, Chinese leaders are seeking more diverse and separate levers of power. It is no longer the case that various instruments are close substitutes in contributing to economic growth and therefore all more or less adequate. Rather, leaders need a range of instruments to achieve discrete objectives. CCP Inc. is an agglomeration of various institutions that allows Chinese leaders to achieve this greater flexibility.

Third, Chinese leaders seek to “go out” and shape the environment outside China, first nearby and then globally. “Going out” is not only expected to contribute to economic growth, but also to create an international environment that is favorable to China in multiple dimensions. The Belt and Road Initiative (BRI) is the obvious example; while uniting a plethora of economic objectives, it is a clear expression of China’s geopolitical ambitions as well. The impact of such overarching initiatives is multiplied by the ability to have different, apparently independent actors cooperating, whether tacitly or explicitly. The CCP Inc. ecosystem also enables enhanced impact due to its ability to harness various kinds of capabilities (an effect evident in the Malaysia and Portugal case studies).

Of course, the CCP has sought a higher degree of control domestically as well. Whether this is driven by insecurity about party rule, as some think, or by a desire to maximize power for external objectives is to some extent an unanswerable question. What is clear is that Xi Jinping has sought a vastly higher degree of political and ideological hegemony over Chinese society than has been seen since Mao Zedong. This affects how CCP Inc. actually functions. Whereas in the past, a tacit cooperation undergirded by a joint interest in economic growth would be enough to unite state and private firms, Xi insists on a higher degree of discretionary control over diverse actors.

**Xi Jinping has sought a vastly higher degree of political and ideological hegemony over Chinese society than has been seen since Mao Zedong. . . . Whereas in the past, a tacit cooperation undergirded by a joint interest in economic growth would be enough to unite state and private firms, Xi insists on a higher degree of discretionary control over diverse actors.**
The New SOE Corporate Governance System

The foundational element of CCP Inc. has been the development of new formal institutions of party control within the state sector. These formal institutional mechanisms give the CCP the ability to oversee state-owned businesses directly. Formal institutions not only permit the occasional direct exercise of authority, but also backstop all forms of indirect and tacit coordination. There have been dramatic changes in formal SOE governance since 2013.

The Communist Party’s Role in Enterprise Decisionmaking

Changes in the governance structure of state-owned companies have brought them much more directly under the control of the CCP. The “factory-manager responsibility system,” which had guaranteed the superior authority of the chief executive officer (CEO) over the party secretary since the 1980s, has been gradually abolished. The party committee was first given a “strategic” role in the firm that overshadowed that of the board of directors, which is itself now routinely chaired by the party secretary. Implementation began during the late 2010s, and the new rules were finally formally approved and publicly released at the beginning of 2020. As part of these changes, existing elements of corporate governance were reorganized to such an extent that the fundamental nature of firm-authority relations has transformed. In a sense, “state ownership” has been replaced by “party ownership,” except that the CCP does not get to harvest the revenues produced by “its” firms.

From the 1980s through the 2000s, the SOE corporate governance system went through important changes as genuine corporations were created. However, throughout this time, the power relationship between managers and party officials was quite stable. First, the manager was the acknowledged top authority within state-owned industrial and commercial enterprises, which is no longer the case. Second, the decisionmaking
chain has been radically restructured. The party committee used to occupy an intermediate and relatively powerless position in the chain, reviewing strategic decisions made by the CEO before they were passed on to the board of directors. Today, the party committee’s position has been doubly enhanced. In the first place, it is now supposed to initiate key strategic decisions in the enterprises, then pass them on to the CEO to draw up a concrete proposal. Furthermore, this proposal must then be approved by the board of directors, whose chairman is now routinely the party committee secretary. With party control at both ends of the decisionmaking chain, there is no ambiguity about who is in charge.

Beck and Brødsgaard recently laid out these changes and described their initial implementation in an article for China Quarterly. The role of party committees in SOE corporate governance has been dramatically strengthened and institutionalized. Crucially, these changes have been widely implemented not only in wholly state-owned firms, but also in mixed-ownership firms where the state has a significant minority stake.

Xi Jinping himself has explicitly declared the fundamental importance of this shift in SOE governance, calling the integration of party leadership in “all aspects of corporate governance” and the embedding of the Communist Party in the corporate governance structure “the distinctive elements of the modern state-owned enterprise system with Chinese characteristics.” As is true in many other aspects of Chinese society, party rule has become institutionalized, and channels of control have become more direct, shorter, and more monopolistic in character.

To be sure, there are important elements of continuity. The basic building blocks of standard international corporate governance systems remain. There is a separation between the board of directors and the chief executive officer. The board has ultimate responsibility for the firm’s overall direction and strategic choices, while the CEO oversees day-to-day operations. However, the operational function of these governance elements has changed fundamentally. The party committee chairman now explicitly takes the chair of the board of directors, and the CCP assumes many of the board’s functions in corporate governance. The party’s existence is no longer shrouded in secrecy. It declares itself to be the representative of a broad spectrum of society’s interests—broader than just that of profit—so a new “stakeholder” has been introduced into the corporate governance system.

Although the party is no longer operating in secret, there are no disclosure requirements, so outside observers routinely know nothing about the meetings and decisions of the top body in the firm. External (“independent”) directors still exist, but their role in the decisionmaking process will have changed, since they now discuss proposals that have already been approved by the party committee. Clearly, this process reduces the extent to which the board of directors brings together stakeholders who are united by their interest in profitability and makes it far easier to impose a diverse set of objectives on the firm (indeed, this is presumably the purpose). The board of directors tends to be a locus of consultation and ratification, rather than the prime decisionmaker per se.

**Setting Performance Indicators**

The new rules are explicit that the party committee’s pre-decision powers should include the “three importants and one big,” referring to all major strategic decisions, appointments, and projects, as well as large-scale capital operations. Clearly, this means the large-scale foreign operations that are the focus of this report are directly decided by party committees, which are themselves sworn to take direction from higher-level party organizations. More broadly, this process opens the way for the party to impose its multiple objectives and priorities on state-owned firms directly. In calm times with a benign leadership, this means social and environmental considerations could be introduced into corporate decisionmaking. In turbulent times with an
activist leadership, this means any consideration or priority that the CCP adopts can be directly translated into state-enterprise decisions. This obviously has relevance for fighting Covid-19, disaster relief, and numerous other issues. It inevitably indicates that profit and efficiency do not have a presumptive claim on enterprise decisionmaking. To present a current example: Should an energy company set coal and oil prices to world levels, increasing profits but importing inflation?

The implementation and consolidation of this new system is being guided by the SOE Reform Three-Year Action Plan (2020–2022). This document does not describe the end state of the new corporate governance system but rather outlines specific steps and actions SOEs are supposed to take before the end of 2022 in order to implement the system. It is carefully designed to make sure that the institutions adopted are compatible with the incentives that policymakers want to create. Throughout, the objective is to regularize and institutionalize the new SOE corporate governance system. It is intended to give firms greater stability and greater freedom within a clearly defined (but expanded) scope of operation, while permanently building in the new noneconomic objectives that are to be the hallmark of—and justification for—CCP control. Three features of the new system help demonstrate this.

First, the regulations encourage greater freedom of operation and stronger incentives for firms within carefully specified ranges. Managerial performance contracts with clear key performance indicators (KPIs) are an important component. China Energy Investment Corporation, a model of implementation, reports that all 4,059 managers among its 1,076 subsidiaries have signed performance contracts with fixed terms and annual and monthly KPIs. This is part of an overall system of labor contracts, performance agreements, and evaluation of success indicators in which “floating wages” linked to KPIs make up 60 percent of the company’s wage bill. Designated high-tech firms are allowed to be listed on the stock market and pay managers with stock options, SOEs in ordinary commercial sectors are allowed to invest in private firms, and superiors are not supposed to administratively intervene in subordinate firms or subsidiaries. Supervision is to primarily take the form of a shareholder preserving the value of their firm. Other new regulations cover SOEs investing abroad: The China State-owned Assets Supervision and Administration Commission (SASAC) will designate each firm’s main line of business and put together a “negative list” of restricted investments. Firms are required to avoid the negative list and, “in principle,” not invest outside their main line of business without special permission.

Second, besides profit and capital value, there is a separate set of public goals that are now incorporated into managers’ performance contracts and incentive systems. According to the Three-Year Action Plan, “Macroeconomic adjustment, technological innovation, and development of strategic emerging industries should be included in the managerial performance indicators.” For example, for China Energy Investment, KPIs include reductions in carbon emissions and anti-poverty actions benchmarked against global leaders. In principle, every top manager in the entire state-enterprise system should now have a set of policy KPIs in addition to their profit, revenue, and value indicators.

Third, the party’s role in the SOE has been strengthened in multiple, overlapping ways. In the most obvious sense, the party committee is given the dominant voice at key steps in the decisionmaking process (as described above). In addition, a manager’s employment contract must include “party building” as one of their KPIs. Finally, the KPIs of the party officials themselves must also include the firm’s profitability and preservation of capital. As the action plan notes, “At present, there is a degree of integration between party building and operational decisionmaking. For example, the decisionmaking of the party committee comes before decisionmaking of the board of directors, but the integration of work at the basic level still needs further
exploration.” In other words, party committees are explicitly being told *not* to limit themselves to ideology and training but to actively guide the enterprise. This is an effort to ensure that the incentives of party officials and managers are unified, not spread across separate tracks.

These three features together make clear that this corporate governance system is carefully designed to give SOE managers stronger incentives and greater freedom *within* a clearly defined scope. Contracts and KPIs make the incentive system more precise about what firms’ obligations are in terms of policy objectives. This makes sense because one of the objectives of the redesigned system is to reduce insider control—that is, to reduce the extent to which SOE managers, through opportunistic and outright corrupt methods, have been able to exploit their positions for private gain. Increased oversight by the CCP is intended to restrict managerial opportunism as well as increase the party’s ability to steer certain sectors.

**Organization and Competition**

A third important change in state-owned firm governance is to the principles by which SOEs have been organized. During the 2000s, central SOEs were consolidated and the total number shrunk toward 100, but two principles were followed: (1) each firm was supposed to concentrate on its core business, and (2) competition between at least two firms was maintained in each sector. After about 2008, a new emphasis on “big and strong” SOEs prevailed. Firms were still merged, but without respecting the need to maintain competition, such as among railway equipment and airplane manufacturers, two sectors where head-to-head competition was eliminated. Moreover, gigantic firms were created by merging, for example, coal and electricity giants, in the hope that these new firms would internalize the costs of energy transition. In this particular case, the merger did not reduce competition in the coal or electricity industries, but it did create a larger, more powerful firm that could extend its reach into numerous areas and serve as a more effective conduit for central government priorities.

These changes in industrial organization were designed to make SOEs more effective and powerful, in part by reducing the market competition that would otherwise drive them to focus on speed and profitability. It was understood that these more effective and less market-constrained entities would also be more useful instruments for policymakers. This approach further supported an implicit functional division of labor between public and private firms. State firms were more able to take on policy and regulatory functions, while private firms could pursue their competitive advantages.
Chinese policymakers have created a series of new financial channels over the past decade that have greatly enhanced the ability of CCP Inc. decisionmakers to steer businesses indirectly. The first component consists of new financial regulations, introduced along with the revised SOE corporate governance, that aim to move toward a more “financialized” system—part of a broader shift toward an “investor state.” The second component consists of a variety of special purpose funds designed to help achieve state aims. The third component is a new approach toward managing (or “steering”) the process by which new firms raise money on capital markets. These three new components come on top of the long-standing state dominance of the banking sector in China, which had already put in place a robust system of policy banks and state-run commercial banks. Put together, these channels provide ample flexibility to CCP Inc. policymakers.

Figure 1 provides a visual representation of this complex financial system. The range of channels and key actors provides a combination of discretion and massive scale. There are three all-encompassing state hierarchies that are relevant to the provision of financial support for privileged firms or projects. The first is the ownership governance hierarchy of the state sector, which was the focus of the previous section; the second is the fiscal (government budget) hierarchy; and the third is the state-run financial system. Figure 1 also highlights five important strategic actors, scattered across all three state hierarchies, who have a specific strategic responsibility to shape enterprises’ investment and decisionmaking. Financing can be provided in other ways, of course, but these five highlighted actors have special strategic roles in the system. Several of them straddle the line between government and capital markets (which should not be thought of as an arena separate from government control or influence).

The Chinese financial system is well-described in the literature. This section focuses on three areas of financial innovation relevant to CCP Inc. operations abroad.
Internal Financial Channels of the State Sector

The institutions most strategically located within this hierarchy are the state capital investment and operations companies (SCIOs). Introduced as pilots in the mid-2010s, the SCIOs were intended to take over an active role within the investor state—that is, not just to serve as passive holders of a government stake, but to actively restructure state firms as an investment bank might. For example, Guoxin (rendered into English as China Reform Holdings) is a “state capital operation company” subordinate to the national ownership agency, SASAC. Initially established to help central SOEs restructure by shedding “non-core” and unprofitable assets, Guoxin has become a permanent, robust actor. Among its portfolio of objectives is to help SOEs looking to expand abroad: in the past 10 years, it has invested 187.2 billion yuan ($26.9 billion) in projects outside China. The SOE Reform Three-year Action Plan strongly emphasizes the diffusion of SCIOs beyond the initial pilots. In quantitative terms, these companies are likely a drop in the bucket compared to funding from massive state-owned financial institutions, including China Development Bank and the Export-Import Bank. However, SCIOs work in close coordination with big SOEs and provide a direct, discreet channel to achieve large-scale objectives.

Government Guidance Funds

Government guidance funds (GGFs) are a new type of financial entity that has proliferated rapidly in the past decade. GGFs have roots in preexisting local government funds and financial linkages to state-owned
enterprises, state-owned banks, and even fiscal authorities. However, they are standalone entities, funded from public and (theoretically) private sources. An individual GGF is set up with a managing agency—which is responsible for day-to-day operations, like the manager in a venture capital firm—and limited partners, who provide funds and participate in an annual or semiannual board meeting. This institutional setup allows the managing partner to bear responsibility and be rewarded for successful investments. GGFs took off in 2014 and grew rapidly until 2018, when the growth rate cooled. By mid-2020, their combined registered investment totaled 11.27 trillion yuan ($1.62 trillion). Actual fundraising and investment laged behind the growth of the approved scale, but investments have continued to increase through the first half of 2022. Each GGF has a declared purpose, as well as a designated scope. Most are directed toward specific industries, especially high-tech ones targeted in China’s industrial policies.29

Many GGFs, such as the National Integrated Circuit Industry Investment Fund (known informally as the “Big Fund”), are huge and unique. As should be apparent from Figure 1, one important feature of GGFs is that they receive funding from all three of the main channels, as well as the complete spectrum of government actors. They are also empowered to raise private sector money, but thus far seem to have been overwhelmingly dependent on direct and indirect government financing. Nevertheless, from the perspective of CCP Inc. policymakers, GGFs have a useful combination of legal independence and an explicit policy mandate. Many of these funds operate internationally and fly under the radar as independent, potentially mixed-ownership entities.

Manipulation of Capital Markets

Capital markets are generally considered to be the most dispersed form of financing—and the one least subject to government control. Since start-ups and firms with contrarian business strategies can potentially find a few “believers” among the multiple entities that transact in capital markets, these flexible and independent institutional frameworks are often praised for enhancing exchange at the expense of government control. The growth of capital markets in Japan after the 1980s was one of the chief causes of the Ministry of International Trade and Industry losing dominance and the end of the extreme forms of “Japan Inc.”

China is different because of the numerous state-controlled entities that operate in its enormous capital markets. Within the broad swathe of capital market operations, there are scores of state-owned venture capital funds that raise financing from all three of the main channels shown in Figure 1.30 These markets provide funds directly (to start-up companies and projects) and indirectly (through GGFs). Government entities’ increasingly ambitious and targeted programs inevitably mean there is more direct government support to new firms—and more efforts to shape their development trajectories.

The most recent initiative by the government to shape new, generally private, start-up firms takes the form of the “Little Giants” (小巨人) program, which offers strong government support to companies in technological niches where China has traditionally had a weak presence and relied on imports. This program kicked off in July 2019, and there have been three batches of firms selected for investment as of the end of 2021, reaching 4,762 in total (with solicitations for a fourth batch launched in June 2022).31 The central government aims to nurture 10,000 such firms over the 14th Five-Year Plan period (2021–25), with provincial governments fostering another 100,000 that will serve as a seedbed for national-level designation. Predominantly small and high-tech, 90 percent of these firms are in manufacturing. Originally, the government budgeted 10 billion yuan ($1.4 billion) to support around 1,000 national-level “Little Giants,” but since the program appears to be expanding rapidly beyond that amount, the cost is undoubtedly much bigger—and growing quickly.
The Little Giants program represents an important extension of government influence into a realm generally dominated by private firms. Analogous industrial policy in Japan and South Korea, by contrast, mainly privileged a relatively small number of existing firms, issuing them policy preferences so they could ramp up production quickly, reach economic scale, and become national champions. Even Chinese policymakers have often worried about the potential for “excess entry” by firms seeking to profiteer off government preferences, which can lead to a serious waste of resources. Chinese industrial policies have traditionally managed these issues by pursuing a threefold strategy: (1) take a relatively hands-off policy in the early stages of a market; (2) have a modest bias toward state-owned firms; and then (3) rally behind whichever firms emerge triumphant from the early stages of competition and anoint them as “national champions.”

The Little Giants program departs sharply from this traditional orientation. It explicitly involves government intervention at an early stage of the firm creation process. New firms are supported both by direct subsidies (typically modest) and by tacit protectionist policies—for example, requiring established firms that rely on foreign, high-tech components to purchase a minimum 20 percent of total supplies from domestic firms (where Little Giants are often the only available domestic suppliers). Such policies can be found in major national-level projects, including space exploration and high-speed railways, according to the Chinese Ministry of Industry and Information Technology (MIIT). Finally, because of the potential for fraud and misrepresentation, Little Giants are supposed to be reviewed after three years, creating additional paperwork and opportunities for government intervention.

In addition to expanding the scope of government intervention, the Little Giants program also exemplifies a new channel of government influence. Beneficiaries of the program are being rushed into listing on China’s stock markets, especially the “Second Boards” in Shanghai and Shenzhen, as well as the “New Third Board” over-the-counter system in Beijing. For example, at the Beijing New Third Board, national-level Little Giants comprised 40 of the 203 newly listed firms in the first half of 2022. In short, the state is pushing relatively new firms to list on the market with an explicit government imprimatur, then inviting investors to buy in, thus providing finance for the firms. This verges on market manipulation, raising clear moral hazard risks, as government bureaucrats “pump” the stocks while insiders prepare to “dump” them when they underperform.

Overview of Financial Channels

The past few years have seen a proliferation of dedicated financial institutions that facilitate the party’s direction of resources to priority sectors and projects. To be sure, in terms of overall volume, the state-owned banks still provide the largest share of resources. State-owned commercial banks provide low-cost credit to favored borrowers, but the bulk of their lending goes to support ordinary daily business. Policy banks—which have an entire mission in life, after all, is to support government development financing, including abroad—play an enormous role in financing CCP Inc.’s foreign activities. The Export-Import Bank has a special remit to support Chinese projects, particularly in Africa; China Development Bank operates all over the world. Moreover, as shown in Figure 1, state-owned banks not only provide enormous volumes of direct financing, they all have standalone investment bank subsidiaries (sometimes labeled “securities companies”) that take a much more proactive role in structuring and providing finance. These subsidiaries are important in establishing and funding GGFs and underpin virtually all state efforts to steer capital markets.

These multiple financial channels can be used with subtlety and discretion to achieve almost anything. In the most extreme case, the government can utilize financial instruments with no apparent link to the state, in essence laundering the funds. But far more common is a blend of financing from a variety of indirect channels,
all of them apparently acting through capital markets and in line with market opportunities. This proliferation of financial channels and strategic financial actors complements the changes made within the state sector, which—while remaining of roughly constant size relative to the economy—is now a more effective instrument of party wishes. Long gone are the days when the state sector was seen as a problem or burden, a bunch of loss-making “dinosaurs” dependent on infusions of aid to stanch the red ink. As their maneuverability and responsiveness increase, state institutions are obviously becoming more effective instruments through which the party can create pressure and impose its will on the broader economy, including on private enterprises.

Thus, changes within state sector governance made the realization of CCP Inc. more feasible. The channels of CCP control over SOEs became more direct and more institutionalized while also remaining extremely discreet. Simultaneously, the number of state-run financial channels proliferated, giving policymakers more tools to influence private sector actors as well. Today, strategists have many different options for supporting business actions that align with CCP strategic objectives. Offering a greater variety of particularistic benefits—and more channels through which to deliver them—has made it much easier for CCP Inc. strategists to bring the interests of private firms into alignment with their own. It is no longer a question of whether the state sector in China is unusually large, but rather an issue of whether the entire economic system is subject to state guidance and whether the Chinese economy functions in a way that is compatible with multilateral institutions and the legal systems of other economies.35
Institutions of Influence in the Private Sector

For over a decade, the penetration of private firms by government and party actors has been increasing. Focusing on shares of equity ownership, one recent paper by Chong-en Bai et al. used registration records for all companies in China to show that while private owners’ share of total registered capital increased by 22 percentage points between 2000 and 2019, almost all of this (19.4 percentage points) came from the expansion of the state-connected private sector. These firms, which either have direct equity ties with state owners or indirect ties with other private firms that have such connections, represent the growth sector of the economy. These are also generally large firms: of the 1,000 largest, 78 percent have direct or indirect links with the state; of firms not in the top 100,000, only 6 percent are connected. In this sense, the Hongqiao Group, which plays such an important role in the Guinea case study, exemplifies a broader phenomenon. As Bai et al. put it, “The net effect is that a large share of the Chinese economy is neither completely state owned nor completely privately owned but is rather this gray zone with mixed ownership.” This was not a significant feature of the Chinese economy 20 years ago, in the heyday of “China Inc.”

It is important to stress that these changing patterns of ownership are the outcome of intentional policy choices, in particular the promotion of “mixed ownership,” which was first prominently put forward during the November 2013 Third Plenum of the Party Central Committee. At that time, the specific policies meant to support mixed ownership were only vaguely alluded to. The party encouraged private firms to take stakes in state-owned enterprises and state-owned firms to take stakes in private firms. It is not possible to trace which pathway has been more significant, but state-connected private firms are much more common in sectors where SOEs are also more dominant, such as the aerospace industry. Some proportion of connected private firms have doubtless been set up to allow private parties to share in the privileges maintained by existing state-owned firms, while some proportion may reflect the extension of state controls to successful private firms. The ownership data does not reveal what these shares are, but it does clearly show that the conditions of
interpenetration have been steadily increasing over the past 20 years. The increase in mixed ownership means that there is abundant scope for CCP Inc. managers to employ the expanded state instruments described in the preceding sections to steer private firms as well, even if less directly.

The CCP Inc. system reflects institutional innovations that are designed to allow mixed-ownership private firms to operate with less direct control and fewer restraints than state-owned firms. In the first place, SOEs are allowed—even encouraged—to profit from their stakes in private firms. Indeed, since one of the KPIs of SOE managers is to maximize the total value of the enterprise’s assets, the greater freedom given to mixed-ownership subsidiaries encourages them to maximize the overall value of the state’s ownership stake in the economy. Furthermore, policy designers are less worried about SOE managers engaging in opportunistic and corrupt behavior when dealing with private firms because private firms have shareholders who act as a check on insider dealing and protect the value of their company. Again, this is an intentional part of the state sector corporate governance reform. For example, the SOE Reform Three-Year Action Plan says that when outsiders have at least a 30 percent stake in a state-majority subsidiary, then outsiders must be given board representation so they can voice their interests. Similarly, provisions that allow SOE managers to receive stock options and other high-powered compensation are designed to smooth the way for mixed-ownership firms with similar mechanisms. Thus, mixed-ownership firms can take risks and explore lines of business that would not be available to a state-owned firm, with significant implications for both high-tech sectors and in the international arena. All this is part of a system designed to streamline oversight and increase transparency for corporate partners within designated spheres.

The CCP Inc. system reflects institutional innovations that are designed to allow mixed-ownership private firms to operate with less direct control and fewer restraints than state-owned firms.

There have been substantial changes in the relationship between CCP Inc. and private firms since 2019. Changing international conditions have interacted with the increasing ambition of policymakers (described in Section 2), who have introduced new tools and shifted the arenas in which these tools are employed. First, in the wake of heightened tensions between China and the United States, particularly regarding U.S. sanctions against Huawei, China’s industrial policy objectives have tilted sharply toward self-reliance. That means not only that the intensity of industrial policy (the overall claim on resources) has increased, but also that the specific sectors and subsectors that are the focus of industrial policy have changed. In particular, to achieve self-sufficiency, China has to invest in numerous economic subsectors in which there is currently almost no domestic presence, such as semiconductor production machinery. This inevitably calls for a more interventionist government approach since the broad, generalized encouragement of high-tech enterprise that has long been a feature of Chinese industrial policy has not spontaneously generated entrants into these subsectors. Indeed, the Little Giants program should be seen as a response to this particular challenge. CCP Inc. is now demanding more specific forms of behavior from private firms than it has been accustomed to demanding in the past.

Second, there has been a shift in the way that key actors within CCP Inc.—especially Xi Jinping—view non-priority private-firm activities. In the past, the party’s general attitude toward private business has been
encouraging, at least since the promulgation of the “three represents” by Jiang Zemin in 2000. Outside of a few high-priority technologies, the party would presumptively support a wide swath of economic activity since it generates employment, increases gross domestic product (GDP), and—in higher-tech sectors—builds capabilities that strengthen China’s technological drive. China has long protected its private, homegrown “national champions,” especially in the high-tech space. Firms such as Alibaba, Tencent, and Huawei have benefited from protectionist policies that allowed them to grow from infant industries to global giants. As the Malaysia case study discusses, their domestic fortress markets make them more profitable and provide other resources that have facilitated their international expansion. Holding company Fosun’s profitable domestic operations also backstop its expansion in Portugal.

This presumptive support for private enterprise has now changed. For a variety of reasons, CCP Inc. has begun to actively discourage certain types of private sector activity, even when they signify high technological capacity. In summer 2021, building on previous regulatory actions restricting Alibaba’s subsidiary Ant Financial, Xi Jinping unleashed a flurry of actions that actively discouraged a wide range of internet-based services, including finance, ride hailing, and gaming, among others. At the same time, his political objectives appear to have changed as well. The desire for stronger ideological and political hegemony over society seems to have led Xi and his followers to adopt a much harsher attitude toward “capitalists” (private entrepreneurs). The regime initially seemed untroubled when its actions led to a dramatic destruction of stock market wealth later that year. Thus, in a set of actions complementary to the increase in tools to positively induce compliance by private business, there has also been an increase in the regime’s willingness to impose negative sanctions on ordinary private business activity.

The economic implications of these two shifts are significant. While CCP Inc. has always displayed a de facto focus on high-tech manufacturing, it is now working to prevent an overall transition toward a postindustrial, service-based economy. The 14th Five-Year Plan explicitly calls for maintaining the industrial share of the economy. As a development focus, hardware is now officially preferred to software. This is sometimes considered to be support for a “German model,” as opposed to an “American model,” of the high-income economy—reflecting the contrast between the relative prominence of German manufacturing firms and the global dominance of American internet firms—and it has a certain popular appeal (“real men make tangible things,” to quote a version of a popular saying). Chinese propagandists even suggest an analogy between the Little Giants and the specialized, medium-sized manufacturing firms that make up the German Mittelstand. However, these comparisons are extremely inaccurate. German Mittelstand firms are traditional, generally family-run firms that have developed strong specializations over generations, often developing out of craft traditions in the nineteenth century. The German specialization in manufacturing is the result of accumulation of human capital over decades, not of government policy that prioritizes that type of firm. The kind of intense preferential policies favored by China for its new start-ups is quite foreign to German practice. Ironically, if anything, it mimics the Silicon Valley approach to launching and rapidly scaling new, “disruptive” firms.
Thus far, this report has discussed the policy changes of the last few years as incremental changes within the framework of CCP Inc.—while also acknowledging that their implementation has caused consternation and confusion among many Chinese actors. CCP Inc. has already afforded enormous power and discretion to Chinese policymakers, seemingly providing them with many of the things they wanted. Yet the actual exercise of discretionary power by Xi Jinping set off a kind of crisis, leading foreign and domestic capitalists to wonder, “Is China investible?” The scramble to readjust policy positions in 2021—not a definitive rollback, but certainly an important rearrangement of policy—can only be understood in this light. Clearly, Xi’s actions in 2021 violated an implicit understanding that facilitated the operation of CCP Inc. Perhaps this disruption can help reveal some of the “hidden rules” (潜规则) at work in the framework.

While it may not be immediately apparent, the effectiveness of the traditional (pre-2021) CCP Inc. depends on a degree of restraint by officials and policymakers. CCP Inc. is not merely an extension of party control into new arenas; it also represents a kind of compelled alliance that binds private firms to government and party actors in business realms. To keep such an alliance in robust health, the party has to be flexible and make occasional concessions. It also needs to respect the fundamental interests of the private business class, even as it wields the tools to insist that the private business class respect the fundamental interests of the party. More generally, there are three kinds of restraint that implicitly underly the “classic” model of CCP Inc.:

1. Private firms are accepted as legitimate, successful private firms are allowed to grow, and entrepreneurs are allowed to get rich. The extension of this principle is that private firms are fully qualified to be “national champions”—to both serve as instruments of national greatness and profit from the achievement of national goals. For example, Alibaba’s success in Malaysia was supported by CCP Inc., and CCP Inc. was strengthened by Alibaba’s success.
2. The instruments used to guide private business and bring about alignment among the commercial interests of private firms and CCP strategists are market-conforming. The instruments described in the previous section are generally deployed as positive pressures to bring about voluntary compliance through incentive alignment. Private businesses can basically continue to operate as profit maximizers and leave it to the strategists to manipulate the market environment. Private firms simply need to be alert to the signals sent by strategists, who provide important information about favored business opportunities. In other words, from the position of private firms in any mixed-market economy, this is different in degree but not in kind.

3. Strategic direction adheres to a broad vision that can be readily communicated to a very diverse set of actors. Despite the proliferation of specific instruments and incentives, all actors need to be able to “get with the program.” In the case of CCP Inc, that program is one of national greatness, national security, and technological primacy. These principles are not written down; rather, they had been taken for granted because they were characteristics of the system as it evolved in the early 2000s, when China finally emerged from decades of market-oriented reform and state sector downsizing with a functioning and rapidly growing market economy. China’s leaders understood the value of what they had achieved and were in no hurry to undermine the achievement with ill-considered policies. Tacit cooperation was in place, and planners were not interested in disrupting it. As China’s commitment to technological development intensified after 2006, new industrial policies were steadily added, layered on each other, and made more generous, but they all generally took market-conforming configurations. Tax exemptions, subsidies, low-interest loans, and government-supported funds were all piled one upon the other. While none of the instruments were perfectly (or even elegantly) applied, on balance the instruments achieved a minimum standard of “at least, do no harm.”

Despite adhering to these principles, China’s policymakers would sometimes apply harsh negative sanctions to private companies. Threats and punishment have always been part of CCP relations with private firms. For example, in 2017, Chinese regulators took dramatic steps to dismantle the corporate empires of Hainan Airlines and Anbang Insurance Group, as well as Fosun, the private conglomerate at the center of the Portugal study. These actions were designed to send a signal to private businesses, as demonstrated by the People’s Daily article cited in the Portugal study. For a signal to be effective, it must be publicized, and Fosun’s compliance and return to the fold was clearly laid out in this People’s Daily editorial, which included specific praise for how the firm facilitated the entry of state-controlled UnionPay into Europe. This signaling and publicizing of both the sanction and the resolution should been seen as systemic features. Readers of this editorial would also understand that the redemption of Fosun’s CEO, Guo Guangchang, was in stark contrast to the fates of the Hainan and Anbang CEOs, both of whom were sent to prison and saw their corporate empires dismantled. The events of 2017 did not signal a crisis of the CCP Inc. model: the corporate moguls were plausibly guilty of financial manipulation, and an astute owner like Guo Guangchang could be welcomed back into the club of national champions once he displayed sufficient contrition. The threat of coercive action was always in the background and retained its effectiveness because it was only rarely and intermittently deployed.

The “classic” form of CCP Inc. provided important payoffs. The private firms with the greatest technological expertise—including Alibaba, Tencent, and Baidu—were inducted into the national team. Market forces remained strong enough that obviously failed projects could be identified and terminated relatively easily (companies and projects in China go bankrupt when they cannot meet their targets and funders tire of losing money). During 2020, hundreds of failed semiconductor projects were closed down. This commitment to market instruments prevented planners from pouring resources into bottomless pits of failed investments. In
short, adherence to norms of restraint made the operations of China’s planners more effective and less costly—and underpinned a generally cooperative relationship between the state and private actors.

Xi Jinping’s bundle of new policies in 2021–22 violated all three of these understandings of implicit restraint. The position of big private companies in China is less secure than it has been since 1989–91. Official spokespeople have issued various veiled and not-so-veiled warnings to Alibaba cofounder Jack Ma that he is not indispensable. This is an abrupt shift from the idea that all companies are Chinese companies and all are members of the national team. As a result, the message is muddied. It is not clear what is demanded from private companies except absolute compliance to the boss’s will. For the first time in recent memory, a company can get in serious trouble for getting too far out ahead of the CCP Inc. program. In political terms, the degree of consensus underlying joint actions by the party and private business has been thoroughly shaken.

**Xi Jinping’s bundle of new policies in 2021–22 violated all three of these understandings of implicit restraint.**

The commitment to market-conforming instruments was noticeably absent in the rush of policy. As described earlier, this was perhaps most clearly displayed in the apparent lack of concern when new regulations destroyed billions of dollars of stock market value. But the same indifference was in evidence across the board as policy objectives were rushed forward without any consideration of appropriate instruments to achieve them. Indeed, even designating an appropriate regulatory agency was not thought out in advance, leading to conflicts between two and sometimes three competing agencies. Perhaps the most striking was the sudden adoption of the “common prosperity” narrative without any movement (or even apparent effort) to address the regressive elements in the Chinese tax code. No country has ever achieved common prosperity without a progressive tax code.

In economic terms, the government’s waning commitment to market-conforming instruments is probably the most damaging of the recent “rules changes.” Even as the commitment to industrial policy is becoming broader and more costly, the quality of the information coming back to policymakers is likely to deteriorate. Consider the case of the Little Giants one more time. It is likely that these firms can list on public markets and attract funding. But it is not because of the judgment of investors that these firms are viable or especially productive, but rather because they are known to have policymakers’ imprimatur. It may be an astute short-run move to buy these stocks, but the purchaser will be looking to dump the shares once the policy-led bubble has peaked. The quality of the information coming from the stock market can only decline. The crucial tacit and informal relations that underpin relations between the state and private business are changing; negative sanctions have become more prominent and are likely to induce more defensive and protective behaviors. The internal relations of CCP Inc. have been weakened.
The case studies carried out as part of this project display abundant evidence of the CCP Inc. ecosystem at work. In the first place, CCP Inc. is clearly prioritizing a variety of concrete strategic goals and achieving them through a diverse “team” of interrelated corporate actors. These strategic goals lie on a spectrum from most to least specific government priority. Argentina’s Espacio Lejano Deep Space Ground Station is tightly subordinated to the Chinese objective of filling a temporal gap in the country’s satellite-tracking capabilities and enable further deep space missions. Geography and geopolitics limit the options Chinese policymakers have (since continuous satellite tracking requires a Southern Hemisphere outpost), and the CCP Inc. team delivered a successful project under these highly constrained conditions. In the Greek electricity and Portuguese finance sectors, CCP Inc. mobilized actors to achieve entry into the EU economic zone through peripheral economies (see Section 8). The Greece case also shows strategic action in promoting intercontinental electric-grid connections, a specific program that serves both China’s strategic interests and the specific economic interests of State Grid (one of China’s largest SOEs). In Guinea, China has mobilized various actors to ensure access to a key mineral resource. At the other end of the spectrum, in both Malaysia and Portugal, it has pursued a more diverse set of objectives, in which there is less of a concrete strategy for achieving the broader goal of economic penetration. Dynamic private firms take the lead (as Alibaba did in Malaysia and Fosun in Portugal). Each of the case studies shows evidence of cooperative behavior among Chinese state-owned, private, and mixed-ownership firms, although to varying degrees. The Malaysia case shows Huawei taking the lead in providing fourth- and fifth-generation telecommunications infrastructure to Malaysia, but also assisting its nominal domestic competitor ZTE to gain a share of government contracts. Alibaba moved forward in Malaysia with multiple business projects, but many of these require close cooperation with Chinese state firms that serve key roles. For both the e-Logistics Park built at the Kuala Lumpur airport and the Smart Cities program
rolled out for the city of Kuala Lumpur, Chinese state-owned firms provided crucial hardware (physical infrastructure investment) to complement Alibaba’s software. Indeed, this general pattern is repeatedly demonstrated by CCP Inc.’s international operations: the big Chinese state-owned construction companies play a powerful role in establishing beachheads, building physical infrastructure, and creating conditions for expansion of other Chinese businesses, including private firms. This is evident in state-owned shipping giant COSCO’s investment in the Greek port of Piraeus, which served as a foundational business deal for China’s growing footprint in Greece.

In Portugal, a study of CCP Inc. revealed a less common pattern of a private financial company taking the lead in penetrating a market, then facilitating entry by a broad range of Chinese companies. BCP Millennium, the private bank controlled by China’s Fosun, helped state-owned giant China Three Gorges Corporation take a controlling interest in utility company Energias de Portugal (EDP). However, it is worth noting that BCP Millennium’s financial resources were substantially bolstered by its relationship with Chinese state-owned commercial bank ICBC, with which it signed a memorandum of understanding and which underwrote Fosun’s important insurance policy with Fidelidade in 2014. In turn, BCP Millennium became the first issuer of UnionPay bank cards in Europe, fulfilling a strategic objective of Chinese policymakers—dating back to China’s World Trade Organization accession agreement—to create a domestic and global competitor to Visa and Mastercard.

In all these cases, there is a de facto division of labor between different kinds of public and private firms. In Guinea, the private Hongqiao Group, with its own roots in the state sector, plays a particular kind of bridging role, in a sense, keeping one foot in each camp of public and private. Often, private firms are left to pursue their own profit-oriented projects, while state-owned firms (with their cost competitiveness bolstered by a range of implicit and explicit subsidies) build the physical and financial infrastructure necessary for the realization of those profitable projects.

The cases also show CCP Inc.’s ability to draw on an exceedingly rich and diverse suite of financial channels to support international operations. This abundant financing allowed Chinese state actors to outbid other suitors for strategic assets. This is evident in the case studies, which detail bids for stakes in privatizing electric grids in Greece and insurance businesses in Portugal. This predominantly shows the massive financial power of China’s commercial and policy banks. In other situations, businesses can call on a wide variety of financial conduits, as discussed in Section 4. China’s government guidance funds (GGFs) were important sources of money for overseas acquisitions, including in the United States, where their relatively independent legal status made them subject to fewer suspicions and controls. This has faded since the United States set up a formal process to vet more investments as the nature of GGFs became better known.

Expanding Chinese businesses can call on a wealth of financial channels to carry out their overseas projects. A private firm like Fosun—once it has reestablished its compliance with government objectives—can draw on a wide range of implicit government financial support. Alibaba, a financial powerhouse on its own, does not need direct financial support but does require a friendly regulatory environment so it can move money across China’s borders (something that, for ordinary citizens, is tightly constrained). The benefit of these financial channels lies precisely in their diversity. They attract less attention since many tranches of different types of financing can be mobilized for a strategic initiative, each one seemingly of modest size and well-suited to a specific project. They provide funding in a dizzying variety of forms and at different terms, making it difficult to establish whether the overall terms are favorable and what the total amount of state support is. Finally, the presence of these different financial channels provides implicit insurance to Chinese firms venturing abroad, which have reason to believe that such financing streams exist to support them in the event their overseas business ventures founder.
Much of the cooperation between SOEs and private firms in third-country markets could equally be the result of tacit cooperation: simple strategies of mutual assistance based on common interest and the understanding that superiors will look benevolently on such cooperation. This is easy to achieve when companies are working hand in glove with the government to penetrate new markets. But it should also be clear that the institutional changes described earlier facilitate such cooperation. They make SOEs more disciplined (focused on their assigned tasks); they provide abundant, diverse financing; they make it easier for SOEs and private firms—to say nothing of mixed-ownership firms—to cooperate; and they help nimble private firms explore new market opportunities abroad. These changes in the internal structure of CCP Inc. and the financial institutions available to serve it were initially driven by domestic policy considerations and the desire to shape the domestic economic system. They also inevitably have an impact on international operations. These are not accidental outcomes but rather intentional, hoped-for results of the institutional design process—the purpose of which has been, from the beginning, to enhance the CCP’s ability to effectively steer the system toward priority objectives.
Peripheral Strategies

The institutional design of CCP Inc. might be said to underly a pattern of operations known as a “peripheral strategy.” In a peripheral strategy, CCP Inc. organizations target a relatively small, peripheral market or country, then use the ability to coordinate among affiliated organizations to strengthen their position by “stringing together” operations. It is true that the evidence for this pattern is largely circumstantial; it is difficult to come by direct evidence of coordination. However, there is indirect evidence: China often officially announces initiatives it supports, and (according to case study evidence) these are concentrated in peripheral economies. China’s friendship initiatives with Portuguese-speaking countries comprise one such example, in which Brazil—the most populous Portuguese-speaking country by far—is curiously underemphasized. This diplomatic approach is echoed by other initiatives in which China focuses attention on smaller, relatively weak countries that are more distant from the center of regional affairs (and perhaps unused to such lavish attention). This is obviously true in Southeast Asia, where Cambodia and Laos receive intensive Chinese support while Singapore and Vietnam maintain a much more formal and prickly relationship with China (with Malaysia falling somewhere in between).

Europe is an especially interesting case. China’s peripheral strategy has been incorporated into a formally designated “forum,” the China and Central and Eastern European Countries (China-CEEC) cooperation framework, initially known as 16+1. While the China-CEEC grouping does have a Beijing-based secretariat, it is essentially a noninstitutionalized umbrella concept grouping together countries, each of which is essentially in a hub-and-spoke bilateral relationship with China. (In this, it is like the Belt and Road Initiative, which it pre-dates by one year.)

For the purposes of this study, China-CEEC cooperation is significant because it reflects a peripheral strategy on two levels. First, the forum obviously presents a channel to deepen relations with a set of European countries without dealing with either the EU bureaucracy itself (12 of the 17 historical members, including the most economically significant, are EU members) or the stronger, more advanced countries that dominate
EU decisionmaking and foreign policy. Second, the China-CEEC countries receiving special attention have much smaller economies than the EU principals, with significantly lower average GDP per capita; they are far less important economic partners for China than any of the major EU players. The cooperation framework is often considered a challenge to the European Union—even though EU norms clearly encourage a multiplicity of cooperation frameworks—because China seeks to cultivate special relations with weaker partners in a way designed to undermine EU solidarity and collective decisionmaking.

In an additional sense, the China-CEEC framework also facilitates a peripheral strategy because it throws a cloak of common amity over a cluster of very dissimilar bilateral relationships. This provides some cover for the much closer relations that China has with Serbia, Hungary, and Greece than with others in the group, constituting a kind of periphery within the periphery. In early 2022, Russia’s invasion of Ukraine caused a shift in attitudes and diplomacy among all the CEEC countries toward a more pro-Western stance, exemplified by Czechia, which assumed the EU presidency for the second half of 2022. Whether a shrunken China-CEEC framework will survive China’s pro-Russia “neutrality” after the Ukraine invasion remains to be seen. The context of peripheral strategy is important when considering the CCP Inc. case studies examining Greece (a latecomer to the China-CEEC framework) and Portugal (through the Portuguese-speaking country initiative).

A peripheral strategy can also emerge through more complex evolutionary processes. A domestic Chinese business venturing abroad may seek to “test the waters” and learn how to operate in a smaller, less competitive market. With lower stakes, the company’s risk is reduced and assistance from friendly financial institutions is greater. If the approach works in the smaller markets, it can be scaled up in larger, more competitive markets after experience is gained. In addition, peripheral countries are more likely to be under financial stress and less likely to have robust alternatives to Chinese funding that are founded on strong domestic governance. An ironic feature of both the Greece and Portugal case studies is that initial Chinese entry was greatly facilitated by the economic conditions in both countries in the wake of the 2008-10 global financial crisis. Both countries were forced to privatize state-owned utilities to qualify for financial support from the “troika” (the joint action of the International Monetary Fund, European Central Bank, and European Commission). In such an evolutionary process, the periphery emerges as a privileged center of Chinese firms’ attention because of the less demanding nature of business in the peripheral economy, both in terms of market competition and regulatory scrutiny.

Electricity Investment as Part of a Peripheral “Going Out” Strategy

Some of these same principles can very clearly be seen at work in the electricity sector—also the subject of the CCP Inc. case study on Greece. Electricity has two characteristics that make it especially interesting. First, all the major Chinese players are state owned, which is generally not the case with other electricity multinationals. However, these state-owned firms seem to seize opportunities created by privatization of public electricity assets abroad. Second, the electricity industry can be divided into generation, transmission, and distribution components. Generation is (potentially) a broadly competitive sector, while transmission is prone to natural monopoly and is thus typically highly regulated. Countries carrying out robust programs of privatization and market regulation usually prevent any company from straddling the boundary by holding assets in both generation and transmission. This is because it is relatively easy for transmission companies to create economic benefits for related parties in the generation business. In China as well, electricity transmission is the monopoly of two state-owned companies, State Grid (in 27 provinces) and Southern Power Grid (in 4 provinces)—which are, in theory, not allowed to hold generation assets. In terms of international operations, non-Chinese electricity multinationals are based in many
different countries, but almost all of them are concentrated in the generation subsector. State Grid and China Southern Power Grid, in contrast, tend to invest in transmission and distribution.

Thus, Chinese electricity investment is quite different from that from other countries. The primary entry point has been funding for transmission or distribution in overseas projects. Through its wholly owned subsidiary State Grid International Development Ltd. (SGID), State Grid owns stakes in transmission and/or distribution networks in nine electricity markets: Brazil, the Philippines, Portugal, Australia, Italy, Greece, Oman, Chile, and Hong Kong. State Grid's trackable overseas investments stand at $28.6 billion, and it self-reports overseas equity of $65 billion. Despite its enormous ambition, it initially limited its overseas investment in electricity generation projects. This was partly because well-regulated economies (such as Chile's) rigorously police the boundaries between generation and distribution. For these reasons, State Grid initially focused almost exclusively on the acquisition, development, operation, and passive equity investment in transmission and distribution (T&D) assets in liberalized electricity markets.

Yet while State Grid's investments were initially restricted to T&D, other Chinese state-owned firms have invested in generation. In Chile, four major Chinese electricity SOEs are present, including China Southern Power Grid and State Grid, which has a 57 percent share of electricity distribution. In addition, Chinese state-owned power generator State Power Investment Corporation obtained five operating hydropower plants in Chile (through acquisition of an Australian company) in 2016. In 2018, large hydroelectric developer and operator China Three Gorges Corporation bought an existing Chilean company, giving it control over a range of renewable energy projects in development. This has created fertile ground for additional Chinese manufacturers and developers, such as Jinko Solar and Xinjiang Goldwind, to sell equipment and become actively involved in the engineering and construction of renewable energy projects in Chile. There is no evidence of collusion among these firms, and Chile's regulatory capacity is comparatively strong. Still, it is impossible to ignore how entry by diverse state and private firms has created a supportive environment for all Chinese enterprises in Chile, giving them collectively a dominant position in the industry.

In Brazil, State Grid has a big presence in electricity transmission through its subsidiary State Grid Brazil Holding, which represents a 12 percent share of Brazil's total transmission and distribution market. In addition, State Grid has a controlling interest in the publicly listed CPFL Energia, the second-largest private energy company in Brazil. The biggest private energy group in Brazil is Enel (a subsidiary of the Italian “green super-major” company of the same name). State Grid thus controls the third- and twenty-second-largest Brazilian energy companies. The tenth-largest is EDP Brazil, a subsidiary of Energias de Portugal, which in turn is minority owned (but arguably controlled) by China Three Gorges Corporation.

Despite its initial entry strategy and substantial technological expertise in electricity transmission, State Grid seems to be nibbling at the edges of regulatory regimes in numerous countries. State Grid’s ambition of gaining a stake in Greece’s electricity generation sector is a strategic business innovation that also raises various unresolved regulatory issues. Already, as the Portuguese case study makes clear, China Three Gorges Corporation’s stake in EDP gives it access to the largest Portuguese industrial group and one of the largest European players in the electricity sector, operating in 20 countries. Clearly, this participation also skirts the boundary of the regulatory principle of separation between generation and transmission. The entry of Chinese electricity giants often seems to be driven by opportunistic considerations: Liberalized and privatized markets present opportunity, and Chinese firms have the abundant financing to be able to step in as buyers. In so doing, they end up taking positions in some surprising segments, notably transmission and distribution, but also in generation, sometimes carried out by other Chinese state-controlled groups.
The record of CCP Inc. in the international arena, examined across five case studies, presents some striking patterns. On the one hand, penetration of new markets (particularly in weak, peripheral economies) has been dramatic, surprising, and—at least in some cases—remarkably successful. Chinese firms seem to be very good at identifying new opportunities in developing countries, then exploiting the opportunity with help from other Chinese partners. This implies that foreign governments and businesses should be wary of the colocation of many Chinese firms and track their behavior. This lesson is relevant to the electricity sector discussed above, where unusual patterns of subsector concentration and state-firm clusters can be observed.

At the same time, CCP Inc.’s activities overseas are marked by numerous coordination failures. This should not be surprising. Even with the most sophisticated instruments, it is still difficult to precisely control the actions of hundreds of disparate actors in the service of scores of different strategic objectives. There are two main sets of problems: coordination failures and backlash.

**Coordination Failures**

A persistent weakness in the performance of CCP Inc. is a pattern of overpromising but underdelivering state aid in infrastructure construction. In many countries, there is a sense that China promised substantial help for major projects that never materialized. This is certainly true in the CEEC, where—despite high hopes—significant investments have been modest in countries besides Greece, Serbia, and Hungary (even though most of these countries are also Belt and Road affiliates). Even in Greece, promises of investment and project development across the energy sector have not been fully realized, creating a pattern of underperformance that cannot be explained solely by EU pushback against Chinese influence in critical sectors. More examples can be found in Central America, where a wide range of ambitious projects have fallen through, including...
for high-speed railways in Costa Rica and Mexico and canals in Nicaragua and Panama. Similarly, in Guinea, Chinese companies failed to meet promised development timelines for the country’s massive Simandou iron-ore mine, even as the same players logged successes in other mining ventures.

These outcomes highlight that CCP Inc. is a vast economic entity composed of a range of heterogeneous actors with different short-run incentives. The agencies promising are not generally the same as the ones delivering; firms that are expected to deliver certain results will refuse or stall if they anticipate suffering significant losses. To be sure, the CCP leadership can induce—or compel—those actors to work in concert in the highest-priority cases, but it can only exercise this kind of explicit and particularized control in times of need. In other situations, it needs to rely on implicit cooperation and internalization of strategic objectives or simply on mutual interest and understanding of the broader rules of the game. Indeed, the part of the system that is theoretically most subject to direct state control—the provision of subsidized infrastructure projects by government development banks—is actually an area where coordination and follow-through appear to be relatively weak. In some respects, it is easier for CCP Inc. to discipline and steer Fosun than it is to discipline State Grid. Fosun is more vulnerable, and its owners have more at stake; State Grid is an indispensable and highly resourced part of the national system. State Grid’s individual leaders and managers can be disciplined, but that will not necessarily bring the organization as a whole under control. Coordination is not necessarily easier when people are in direct command relationships, as the outcomes of innumerable government and military operations throughout human history clearly show. The concrete coordination needed delivering specific state projects may in fact be a weakness of the CCP Inc. system.

The CCP leadership can induce—or compel—those actors to work in concert in the highest-priority cases, but it can only exercise this kind of explicit and particularized control in times of need. In other situations, it needs to rely on implicit cooperation and internalization of strategic objectives or simply on mutual interest and understanding of the broader rules of the game.

Backlash

Activity by CCP Inc. firms often leads to a backlash in host countries. This theme of wariness about state connections was evident across this project’s case studies examining CCP Inc. in Malaysia, Greece, Portugal, and Argentina. Coordination among these firms and their local allies has become a red flag to many countries. Suspicion leads them to stall and sometimes cancel CCP Inc. initiatives.

GLOBAL PUSHBACK

Pushback has impacted projects differently, depending largely on host-government relationships with China versus their relationships with the United States and European Union. In Greece and Portugal, EU
concerns about China’s reach—particularly in Greece’s electricity grid—served as a counterweight to Greek and Portuguese efforts to pursue China as a needed financier of infrastructure and privatization projects. In the Argentina and Malaysia case studies, U.S. concerns about the expansion of CCP Inc. affected the prospects of Chinese projects. In Malaysia, this arose in the form of pushback against Huawei, which ended up limiting the telecom giant’s global operations in countries that were more closely aligned with the United States. In Argentina, both U.S. and Argentinian protests clouded the construction of the Espacio Lejano Deep Space Ground Station, which was marked by Chinese military ties and secrecy around terms of use. Moreover, Argentine startup Satellogic, a leading private-owned purveyor of satellite imagery, pivoted away from partnerships with Chinese firms in favor of ones with U.S. firms, likely driven by an understanding that it would need to do so to remain eligible for Western defense and intelligence contracts. The variation among cases clearly shows that there is a global backlash against Chinese collusive behavior led by developed nations, including the United States and the large EU countries.

**LOCAL PUSHBACK**

All politics are local. Backlash has a significant impact in host countries, based on their specific domestic politics. Idiosyncratic power relations create unpredictable dynamics that often make CCP Inc. ties a political liability—even when they provide economic assets. Since CCP Inc. actors are often unfamiliar with local politics and generally have little expertise and no experience understanding democratic processes, they are often clumsy in handling these relations. In many cases, including those represented in the CCP Inc. case study reports, charges of corruption linked to discomfort over close ties with Chinese actors have led to the fall of governments. Most spectacularly, the 60-year reign of the United Malays National Organization was brought to a crashing end in 2018 by corruption charges against Prime Minister Najib Razak, leading to the party’s electoral loss that year. While Razak’s worst corrupt act was looting the 1Malaysia Development Berhad (IMDB) state investment fund, allegations that Malaysia overpaid for Chinese infrastructure projects in return for kickbacks to politicians figured prominently in the election. In Malaysia, the pushback was predominantly based on local issues, and Razak’s successor promptly negotiated substantial reductions in the price Malaysia was paying for Chinese projects.

A similar pattern is evident in many democratic countries. Out-of-power parties make nontransparent China ties an issue in electoral campaigns, which does seem to help them in cases where they displace the governing party. This was likely true in Argentina in 2015, when Mauricio Macri (temporarily) ousted the regime of Cristina Fernández de Kirchner and Alberto Fernández. Other countries in Latin America, including Panama and Costa Rica, have experienced similar dynamics. Sri Lanka’s spectacular economic crisis has been brought on in part by unstable alternation between political parties who have made ties with China a central issue. In Africa, the multidimensional Chinese economic presence often creates political backlash, as in Zambia, where politicians have rallied anti-China sentiment as a populist strategy across multiple election cycles. Each of these cases, however, displays very particular—even idiosyncratic—patterns linked to the local exercise of political power and the types of interest groups that wield influence.

Nondemocratic countries—and fragile democracies—can also pose challenges to CCP Inc. because of the complexity of interests at play. In Guinea, Beijing’s close ally President Alpha Condé was deposed in a military coup in 2021, and Chinese efforts to develop the Simandou iron-ore mine were stalled by the new military government, which took issue with failures to meet promised development timelines. Concerns about the state-commercial connectivity of CCP Inc. did not feature as an explicit, public issue in Guinea, but CCP Inc. nevertheless had to make an adjustment to the new post-coup structure of power, which took time and resources. So while the ecosystem faced less scrutiny linked to Western concerns about China’s international reach, CCP Inc. in Guinea had to handle a different set of challenges tied to poor governance.
REBOUND FROM BACKLASH
Despite major losses caused by local pushback, CCP Inc. has shown great resilience and an ability to rebound from these reversals. In Malaysia, for example, after Razak’s 2018 defeat, former prime minister Mahathir Mohamad assumed power. Mohamad succeeded in reducing the price of several Chinese infrastructure projects, notably the Kuala Lumpur–Singapore high-speed railway, but also promptly resumed business relations with Alibaba, sealed with a friendly visit to Hangzhou to visit Jack Ma. Political instability has continued in Malaysia through the November 24, 2022, appointment of Anwar Ibrahim as prime minister, so it is difficult to make firm conclusions. However, it appears that new leaders have strong incentives to ignore past tensions and normalize relations with China. CCP Inc. is quite capable of providing individualized goods for the new leaders, just as they did with the old, and perhaps in less conspicuous and blatantly illegal forms.

A similar dynamic was visible in Argentina. Despite Macri’s anti-China rhetoric ahead of his election in 2015, his policies quickly assumed a less hostile stance. China’s deep space ground station was built and continues to operate today. Moreover, after the return of a Fernández-led government in 2019, Chinese-Argentine economic relations are again gaining momentum, buoyed by Argentina signing on to the BRI, as well as a new spate of major bilateral infrastructure deals and even discussion of allowing Argentina to join the BRICS grouping.67 The different outcomes underline that potential coordination among CCP Inc. firms and state actors is only a red flag in certain contexts, highly dependent on the state of political relations with China. Similar sequences were evident in Panama and Costa Rica, where new leadership groups promptly moderated their critical rhetoric and resumed cooperation with China. CCP Inc. policymakers seem to understand this process reasonably well. They adopt flexible, short-run policies, then wait for relations to resume.
Conclusion

This report has made clear that CCP Inc. refers to a fundamental set of institutional arrangements for managing and steering the Chinese economy. These arrangements are novel and different enough from previous ones to warrant a new label; this project proposes “CCP Inc.” The report has also shown that important changes in the CCP Inc. model have occurred in the past few years, following a consistent logic of strengthening the CCP’s direct control over state actors, diversifying available instruments of influence, and increasing indirect controls over private actors. Despite heightening the party’s capabilities, the changes have, on balance, increased the challenges faced by CCP Inc. decisionmakers and perhaps made the model less effective. There is more risk and less certainty or unity of purpose among the constituent actors of CCP Inc. Information flows about economic actions are less smooth and provide less useful information. There is an unusually high level of policy uncertainty in China today and an increased global (and local) backlash against its activities. These changes suggest that the CCP Inc. system will be less efficient and face more obstacles going forward.

This lower efficiency, however, is complemented by party leaders’ greater ambition. CCP Inc. has committed to an even more ambitious form of industrial policy and to achieving technological self-reliance. The way the Russian invasion of Ukraine has intensified the global East-West split has put new pressure on Chinese activities worldwide. This will undoubtedly have an enduring impact in Europe, destroying China’s peripheral strategy among Eastern and Central European states. Paradoxically, it will also intensify China’s global peripheral strategy because most developing countries have declined to join the Organization for Economic Cooperation and Development (OECD) countries in their effort to isolate Russia and will continue to be receptive to Chinese overtures. Presumably, China will seek to establish deeper and more intimate ties with a range of developing countries, going beyond its initial market penetration to establish more mature trading and investment relationships. This will require greater coordination among diplomats and development banks, areas that (paradoxically, as noted above) have not been strong in the past. The coming phases will provide new tests as well as new opportunities for CCP Inc.
As Xi Jinping continues to amplify rhetoric of national greatness—which he has used to support his selection to a third consecutive term as president—he is likely to resume assertive diplomacy and initiatives as the post-Covid-19 world reduces barriers. Flexibility and adaptability are potential strengths of the CCP Inc. system, but it remains unclear whether policymakers have the will to roll back damaging, overassertive policies and then commit to the long-term, patient investment of policy resources required to reestablish lost credibility. It may be easier for them to simply continue to swing into direct command-and-control techniques—despite the damage to economic performance this implies.

CCP Inc.’s challenge to the rules-based international order is undiminished. China seeks not only to maintain and expand the trade and investment flows tying it to the rest of the world, but also to ensure that those links incorporate more Chinese bargaining power and contribute to national security and economic interests. China seeks to be part of more bilateral relationships in which it has the upper hand and to participate in more production networks in which it controls the scarce links with prized technologies. This is a recipe for increased tension with many economic partners since it downplays the benefits of market-driven production networks, while security considerations spread to previously ordinary economic relationships. To make matters worse, there is every indication that China will defend these new concepts within the international organizations in which it plays an important role. CCP Inc. is constantly reformulating itself and adapting to changing internal and external demands. In turn, this steady self-reformulation reveals tensions and contradictions but also requires a deepened understanding of this formidable economic system.
About the Authors

Barry Naughton is the So Kwanlok Chair of Chinese International Affairs at the Graduate School of International Relations and Pacific Studies at the University of California, San Diego. Naughton is an authority on the Chinese economy, with an emphasis on issues relating to industry, trade, finance, and China’s transition to a market economy. Recent research focuses on regional economic growth in the PRC and the relationship between foreign trade and investment and regional growth. He is also completing a general textbook on the Chinese economy. Recently completed projects have focused on Chinese trade and technology, in particular, the relationship between the development of the electronics industry in China, Taiwan, and Hong Kong, and the growth of trade and investment among those economies. His book, Growing Out of the Plan: Chinese Economic Reform, 1978-1993, which was published in 1995, is a comprehensive study of China’s development from a planned to a market economy that traces the distinctive strategy of transition followed by China, as well as China’s superior growth performance. It received the Ohira Memorial Prize in 1996. His most recent book, co-edited with Kellee S. Tsai, is State Capitalism, Institutional Adaptation and the Chinese Miracle, published by Cambridge University Press in 2015.

Briana Boland is a research associate for the Freeman Chair in China Studies at the Center for Strategic and International Studies (CSIS), supporting the program’s research on party-state governance and evolving political discourse in China. Prior to joining CSIS, Briana worked as a political risk analyst at Dentons, where she researched China’s economic policy and shifting trends in U.S.-China relations for firm leadership and international clients. She holds a BA in international studies with minors in economics and Chinese language from Fordham University.
Endnotes

1 All case studies can be found on the project homepage. See “CCP Inc.,” Center for Strategic and International Studies, https://www.csis.org/programs/freeman-chair-china-studies/ccp-inc.


5 The party also asks firms to contribute to social equity, environmental quality, or community activities, but these are in addition to party steerage of core economic and technology efforts.

6 There are also party branches in private and mixed-ownership firms, but (unlike with SOEs) these play only a secondary role compared to the (external) economic instruments that shape behavior.
The exception to this pattern is the first CCP Inc. case study published, which focuses on Chinese mining ventures in Guinea. The case study relied on a combination of company publications, publicly released contracts, and industry reporting, which provided an extensive supply of data points despite limited local press reports. See Briana Boland, Lauren Maranto, and Jude Blanchette, CCP Inc. in West Africa: How Chinese Party-State Actors Secured Critical Minerals in Guinea (Washington, DC: CSIS, June 2022), https://www.csis.org/analysis/ccp-inc-west-africa.

Deng’s famous statement on development has continued to be promoted by CCP mouthpieces, such as the People’s Daily, even in recent years. See Guang’an Online, “发展才是硬道理” [Development is the only hard truth], People’s Daily, January 23, 2017, http://cpc.people.com.cn/n1/2017/0123/c410539-29043799.html.


A recent article argues that these changes represent “deepening not departure” because they build on familiar Communist Party instruments of control, specifically the nomenklatura system and the presence of party committees inside the firm. The analysis of elements of continuity is important, but the argument that the overall system is primarily continuous with old arrangements is not convincing, for reasons described in the text. See Wendy Leutert and Sarah Eaton, “Deepening Not Departure: Xi Jinping’s Governance of China’s State-owned Economy,” The China Quarterly 248, no. s1 (November 2021): 200–221, https://www.cambridge.org/core/journals/china-quarterly/article/deepening-not-departure-xi-jinpings-governance-of-chinas-stateowned-economy/AC954918ED262CB213F72D39264601D3.

Note that this was also true in universities and in the bureaucratic agency that controlled state-owned enterprises. The first head of SASAC, Li Rongrong, was the executive head and explicitly outranked Party Secretary Li Yizhong. In 2005, when Li Yizhong was transferred out of SASAC, Li Rongrong assumed the party secretary position as well.


Generally speaking, the chairman and the CEO are not the same person, representing a more “modern” type of power distribution than is the norm in some U.S. companies, such as Meta or Tesla.

In addition, external directors are now largely drawn from other parts of the bureaucracy, rather than independent sources such as academia or society.


In addition to the aspects discussed here, the program clearly describes using traditional CCP personnel techniques to control managerial careers, including independent directors on the board. Management Professional Group even speculates this will lead to separate entrepreneurial talent pools, ending the crossover of effective managers into government jobs. This remains to be seen.


Management Professional Group, “Use of the new expressions.”

China also has a large and thriving private venture capital community, including firms that originate as spinoffs of international firms (e.g., Sequoia China) and those that grew from earlier generations of successful domestic entrepreneurs (e.g., Tencent Investment and Hillhouse Capital). In addition, there are numerous mixed-ownership venture capital firms at every point along the spectrum.


See Mark Wu, “The ‘China, Inc.’ Challenge to Global Trade Governance,” Harvard International Law Journal 57, no. 2 (Spring 2016): 261–324, https://harvardilj.org/wp-content/uploads/sites/15/HLI210_crop.pdf. As this section has shown, the divergences that Wu tracked between China and other economies have become much greater and more clearly outlined in the seven years since he wrote.

As is well documented, the organization of party committees in private firms has proceeded steadily since the turn of the century, giving a direct (if narrow) channel of influence for managing firms. This section considers only economic forms of influence. For a good discussion of the interactions between ownership and other aspects of party penetration into private firms, see Lin and Milhaupt, “Party Building or Noisy Signaling?”


The political implications of this shift are also profound, but discussion is beyond the scope of this report.


The author of this paper discussed two of these in an earlier essay as features of the new Chinese model, not as types of restraint. See Barry Naughton, “Grand Steerage,” in Thomas Fingar and Jean C. Oi, eds., Fateful Decisions: Choices That Will Shape China’s Future (Stanford, CA: Stanford University Press, 2020), 53–83.

Cramer-Flood and Boland, CCP Inc. in Malaysia.

That is, industrial policies might waste money, but they would not otherwise impose damaging distortions on the economy.

Polk, CCP Inc. in Portugal.

Ibid., 18–20, 22.

For the most spectacular example, see Liu Yan [刘燕], “武汉千亿芯片项目停摆,成立不到三年陷‘烂尾’风险” [Wuhan 100-billion-chip semiconductor project halted, risks becoming “unfinished business” less than three years after its establishment], Maimai, August 25, 2020, https://maimai.cn/article/detail?fid=1521655971&efid=OrSMreNmp2zd6S5CjdhMg.

Che and Goldkorn, “China’s ‘Big Tech Crackdown.’”

This pattern has already been detected in previous Chinese capital-market manipulations. If academics can detect it, Chinese investors have probably detected it as well. See Xia (Summer) Liu, William L. Megginson, and Junjie Xia, “Industrial Policy and Asset Prices: Evidence from the Made in China 2025 Policy,” Journal of Banking and Finance 142 (September 2022): e106554, https://doi.org/10.1016/j.jbankfin.2022.106554.

China was essentially limited to a few locations in Australia, southern Africa, or southern South America with acceptable weather conditions.

Polk, CCP Inc. in Portugal.

Note that these banks are listed on Chinese domestic and international stock markets, where they trade for a substantial discount to their underlying assets. Market participants understand that these banks are “taxed” by the Chinese state to support projects for noneconomic reasons.

Ivana Karášková et al., Empty Shell No More: China’s Growing Footprint in Central and Eastern Europe (Prague: Association for International Affairs, April 2020), https://chinaobservers.eu/wp-content/uploads/2020/04/CHOICE_Empty-shell-no-more.pdf. The initial 16 Central and Eastern European countries involved in the initiative were all formerly socialist countries (or Soviet Republics in the case of the three Baltic states) and included all those successor countries except Kosovo. Greece joined in 2019, making the group the 17+1, but Lithuania withdrew in 2021, reverting the group to 16+1. In August 2022, Estonia and Latvia joined Lithuania in abandoning the framework, leaving the group at 14+1.

Moreover, Chinese corporations understand this strategy and are attracted by it. Chinese legacy automakers initially targeted smaller, middle-income economies, especially Chile. Chinese electric vehicle (EV) manufacturer BYD entered the Philippines first. Currently, many Chinese EV manufacturers are targeting Norway, seeking to develop it as a perch for broader penetration of the EU market.

Boland, Combs, Blanchette, and Polk, CCP Inc. in Greece.
Big multinational utility companies, such as Enel, Électricité de France (EDF), Engie, Tokyo Electric Power Co. (TEPCO), Korea Electric Power Co. (KEPCO), and Iberdrola, are all specialized in generation.


Karásková et al., Empty Shell No More.

Compare to Polk, CCP Inc. in Greece, 7; and Polk, CCP Inc. in Portugal, 18–20.


Boland, Maranto, and Blanchette, CCP Inc In West Africa.
