

The Party v. Shareholders

WHAT DRIVES CORPORATE GOVERNANCE IN CHINA?

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Blurred SOE/POE Boundary in China (Milhaupt & Zheng 2015)

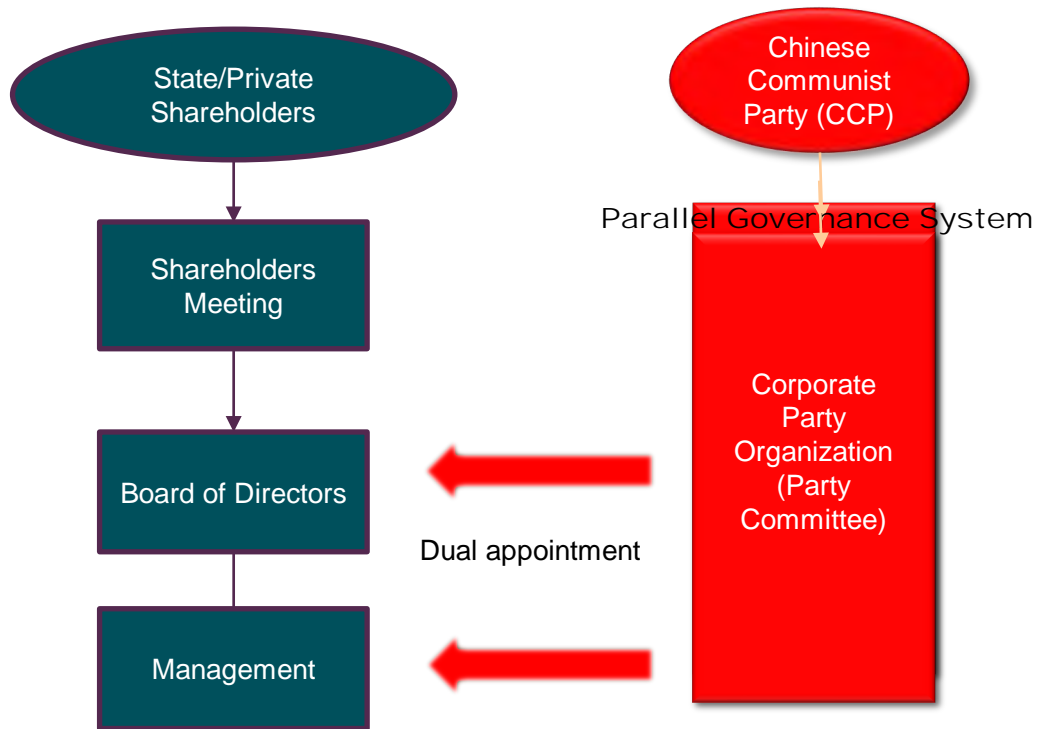
Party-state exercises less control over SOEs than commonly assumed

- Ownership does not equal control: agency problems; span of control limitations; political influence of SOEs vis-a-vis SASAC

Party-state exercises more influence over POEs than typical regulator

- POEs need protection and support of party-state to grow
- Weak rule of law gives party-state residual control rights irrespective of ownership (e.g., Jack Ma/Ant)

Corporate Governance in Chinese Listed SOEs and POEs



Strengthening CCP's Role in Corporate Governance

“Party-Building” Policy (Lin & Milhaupt 2021)

- Strengthen and formalize role of CCP in corporate governance

Corporate Social Credit System (Lin & Milhaupt 2023)

- Data-driven system to rate “trustworthiness” of all Chinese corporations

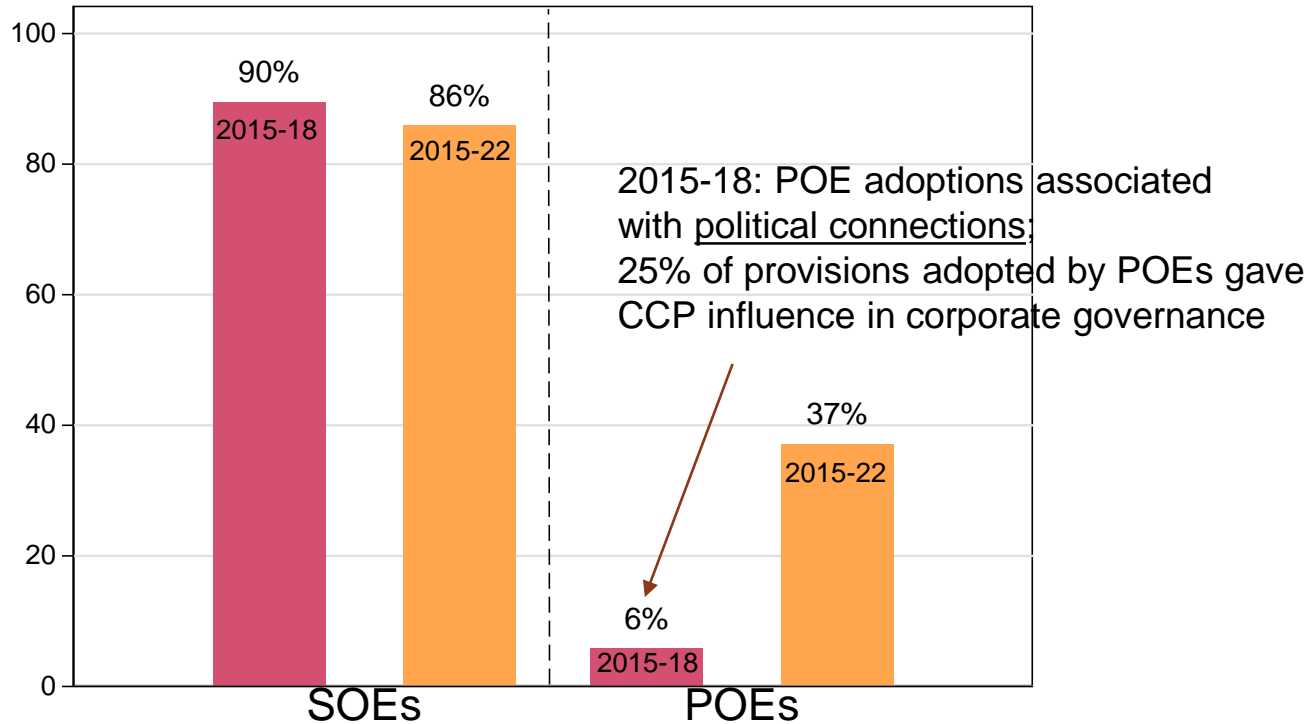
“Special Management Shares”

- State shares in private companies with special rights

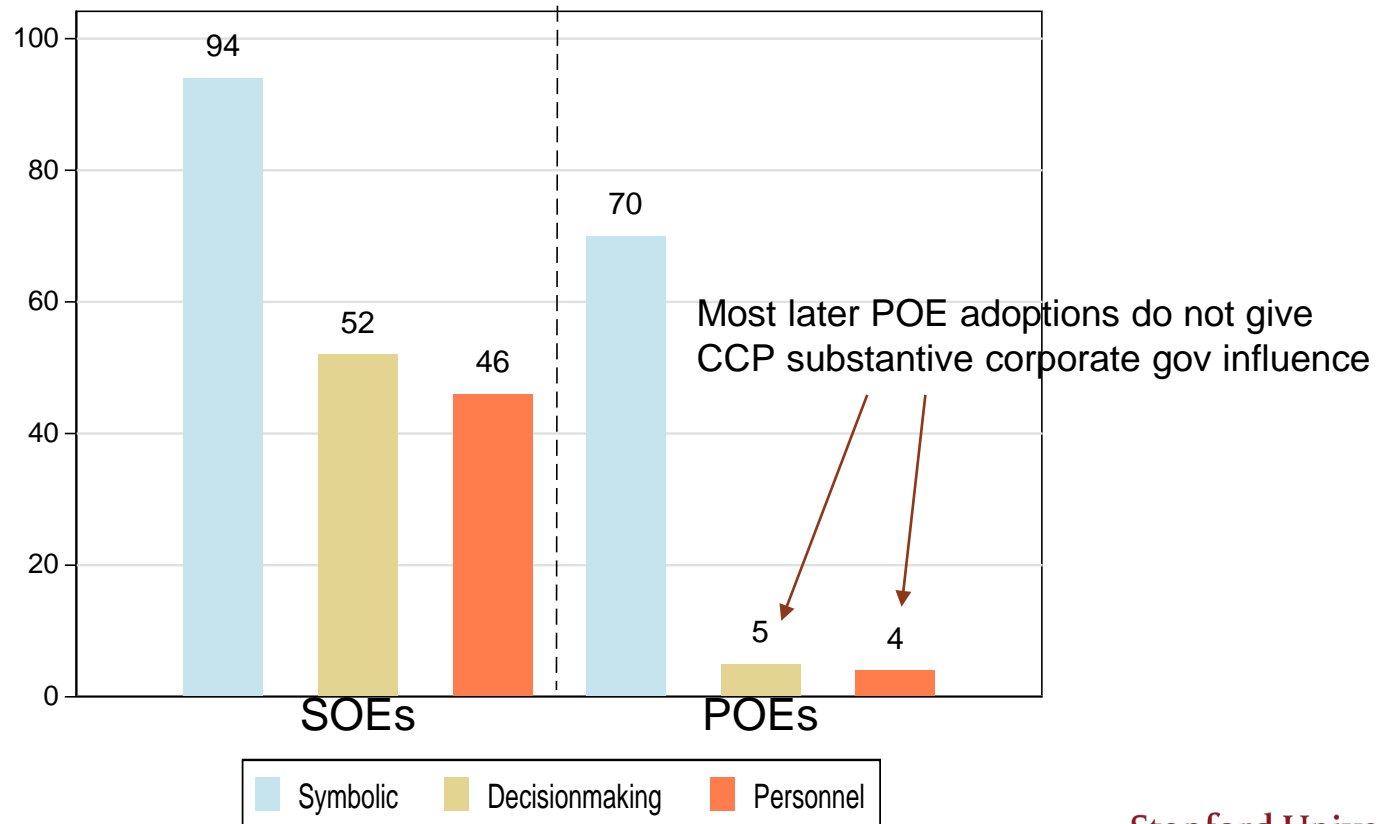
“Guidance Funds”

- State-private investment funds with dual objective: generate financial returns and support industrial policy

Party Building: Adoption Rate (%) by Firm Type, 2015-22



Party Building: Adoption Rate (%) by Type of Provision, 2015-22



Corporate Social Credit System

Social Credit Profile

Public credit scoring system in **Zhejiang Province** (1,000 pts max) with five main categories:

- Basic Data 80 pts
- Finance & Tax 195 pts
- Governance 90 pts
- Compliance 450 pts
- Social Resp. 185 pts

• Overall ratings from Excellent to Poor based on total points

• **Politically connected firms receive higher total scores* (Lin & Milhaupt 2023)**

Public Credit Information

Market Credit Information

Data generated by government agencies

Data generated by market participants

Blacklist

Red-list

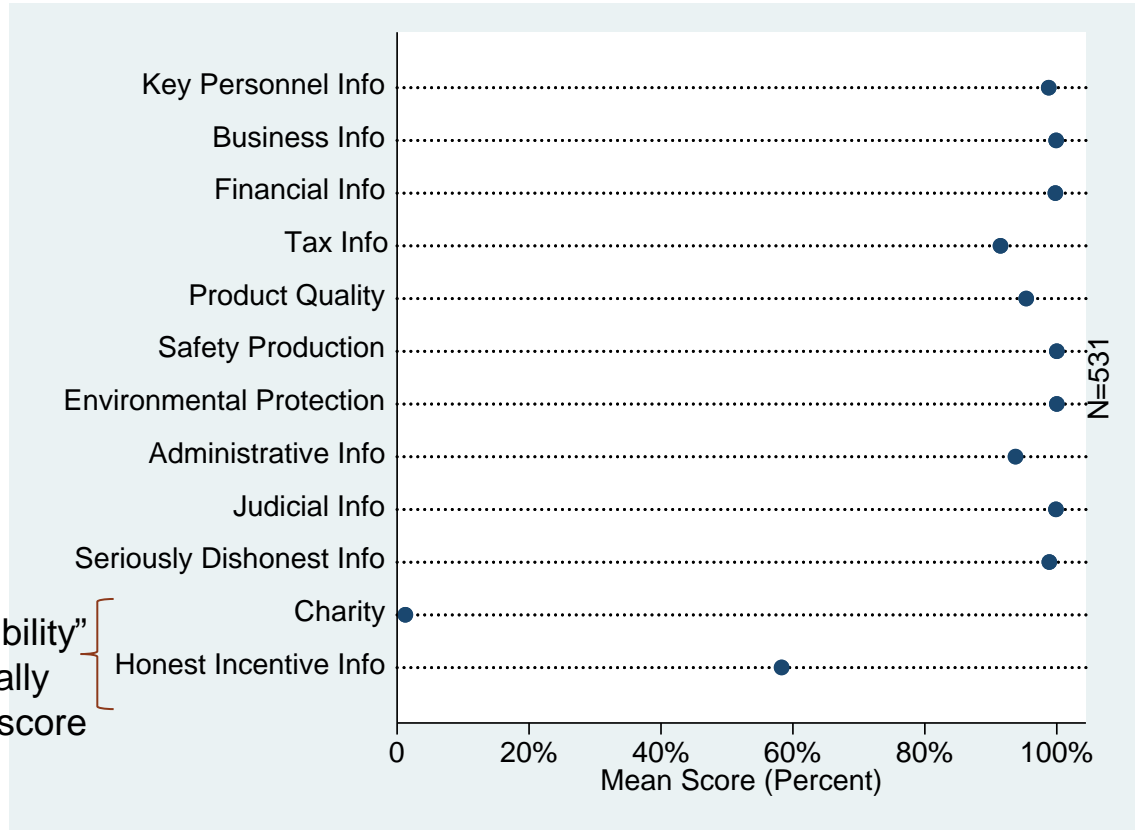
Judgments, Admin penalties

Consumer complaints

Industry Assoc Ratings

Credit rating agencies

Mean Score (%): Subcategories of Corp Social Credit



“Social Responsibility”
Category: Politically
connected firms score
higher

The Party-state as Investor

Special Management Shares

- Shares have veto rights over certain decisions, carry one board seat and allow appointment of chief editor to monitor content

Guidance Funds

- 1800 funds at central and local level with about \$800 billion in capital
- Market discipline and professional management in support of industrial policy

Role of Party-state

- From external governance (regulation) to internal corporate governance and corporate finance
- “Financialized, investor state” model

The (Party)State Strikes Back, or Changes Tack?

Recent analysis

- “Hybrid Firms” Gatley (2022)
- “CCP, Inc.” Naughton (2022)
- “From China Inc. to CCP Inc.” (Blanchette 2021)
- “Party-state Capitalism” Pearson et al. (2021)
- “Neither Nationalization nor Privatization” Huang & Véron (2022)

Implications?

Impact on Chinese investment, entrepreneurship and innovation?

- Different sectoral effects?
- Shareholders, markets as countervailing forces on CCP or enhancements to CCP's role in corporate sector?

Impact on China's external economic relations (importance of perception)

- Delisting threats; DoD List of "Chinese military companies"
- Decoupling