ECONOMIC GOVERNANCE IN XI JINPING'S "NEW ERA": NEW VECTORS OF PARTY INFLUENCE IN CHINA'S FINANCIAL SECTOR

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Executive Summary

1. Xi Jinping's crucial report to the 20th Party Congress (PC), on 16 October 2022, highlights his goal to strengthen the political and organisational capabilities of party organs as "battle fortresses" across all sectors of society, explicitly singling out the financial sector.

2. The finance sector is at the forefront of forging new roles for the party in economic governance. To govern its economy, Beijing embraces state-of-the-art regulatory approaches and uses the leverage of ownership. Beijing also intervenes through a vector of influence that is less legible to outside observers, namely party networks.

3. The one million plus Chinese Communist Party (CCP) members in China's finance sector are instructed to help align banking business with Xi Jinping's political commandments. CCP authority is experienced as a combination of top-down instructions and bottom-up vigilance.

4. After the massive 2015 stock market volatility, the same discipline inspectors of Xi Jinping's anti-corruption campaign now have a broad mandate to trigger more impactful political activity among party members in banks. The eighth round of inspections (2015) after the 18th PC of 2012 and the eighth round of inspections (2021) after the 19th PC of 2017 especially targeted banks.

5. Inspections enforce a new discourse. Bankers must vow their commitment to follow the CCP's guidance in everyday operations. They submit to the party's open-ended authority, sometimes through extravagant displays of loyalty. This new rhetoric is not empty talk but preempts resistance against CCP involvement in business decisions-making.

6. Inspections also enforce formal institutional change. Corporate charters are revised to enshrine the party committee's prerogative to deliberate crucial decisions before they go to the board. Party and business hierarchies are aligned. Career evaluation

systems build in new, strong incentives for bankers to distinguish themselves through innovative party-building projects.

7. Inspections enforce politicised credit allocations. Politicised banks support Xi's anti-poverty campaign, offer inclusive financing at the expense of profit maximisation, invest into the real economy rather than real estate; target villages rather than cities; and follow the leadership's geographic priorities for development.

8. Politicised banking could indirectly result in unfair competition, but it is not mainly about subsidising China Inc. at the expense of foreigners. Some of its goals are inclusive banking or environmental policies.

9. State-owned banks lead the way in politisation, but private firms in the finance sector are also targeted by the transformative politisation agenda.

10. Foreign companies have to know how to deal with pressure to engage in party-building. Governments could help by identifying and disseminating best practices.