

Book launch – ‘The Chinese Corporate Ecosystem’

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Dr Renata Grossi:

Welcome, everybody, to today’s book launch. I want to begin by acknowledging that we are on the lands of the Eora Nation, where a treaty has never been signed and sovereignty has never been ceded, and therefore we are essentially benefiting from stolen land.

I’m sorry, Colin, have you got all the Zoom people on? Are all the Zoom people here?

Dr Colin Hawes:

Apparently they are.

Dr Renata Grossi:

Okay, good. Good.

Dr Colin Hawes:

We can’t talk to them because it’s a webinar, but I hope so.

Dr Renata Grossi:

So I just wanted to extend an acknowledgement to any First Australians who are joining us in the room, but also on Zoom, that are on other lands.

So I’m Renata Grossi from the Faculty of Law and today we’re here to launch a book by the very enticing title *The Chinese Corporate Ecosystem*, which is published by Cambridge University Press later on this year. I’m not going to say much about the book. The number of people here and on Zoom speak to its importance, and I think that the author is best to speak to its contents. However, I’d like to introduce to you the author.

So Colin Hawes is a much-valued and highly-esteemed colleague at UTS. He is both an Associate Professor in the Faculty of Law and a Research Fellow in the Australia-China Relations Institute. Colin joined the UTS Law Faculty in 2005 after obtaining his PhD with the University of British Columbia and practicing law in Vancouver, Canada. He has published three books and numerous articles on Chinese law and society and Chinese corporate governance in international journals such as *Law & Society Review*, the *Journal of Corporate Law Studies*, and *The American Journal of Comparative Law*.

Colin's overarching interest is the intersection between corporations, law, and culture. His research focuses on the embedding of legal culture in contemporary Chinese legal practice, including the growth of legal precedents, the creative interpretation of corporate law for Chinese judges, and the impact of technology on the operation of the Chinese legal system. So without further ado, I'm going to hand over to Colin who's going to speak for about 30 minutes, and then we'll have some time for some questions. And we aim to finish by no later than 1:30.

So over to you, Colin.

Dr Colin Hawes:

So, thank you, Renata, and thanks to ACRI for helping to promote this event, and to all of you for coming. And we had some technical issues, but I'm hoping that the people who have Zoomed in can also hear me online. And you will have a chance to put questions into the Q&A or to ask me in person at the end. So let's hope this is all working technically.

I've called this talk 'The Fractured Chinese Corporate and Political Ecosystem,' and I want to – I just have to move this stuff out the way off my screen so I can see my own PowerPoint – I want to talk about the difference between surface and reality in China, and some misunderstandings that have come out because of that. And secondly, the fragmented and fractured political ecosystem, which is one reason why we don't understand China so well. We're not aware of the fragmented nature of that ecosystem. And then some case studies to illustrate that, about corruption and self-interest as fragmenting forces subverting the ecosystem. And I'll finish with some case studies of these private corporations, Huawei and Alibaba Ant Group to show how they try to work within that political ecosystem and why that's relevant for Australians.

So, what you see here as in this slide, it looks like a Chinese landscape painting by Guo Jian. But as you go a bit closer, you start to realise it's made up of thousands of individual pictures of little people, human beings with their own desires, their own needs and their own interests. And the Chinese political ecosystem is a bit like that. Now, we tend to think of it as a pyramid with very tight control from the top with the party, the Communist Party. Xi Jinping is the president, and a small number of Standing Committee members at the top, and they control the pyramid very tightly. And it expands out through these different committees at different levels right down to the rank-and-file party members. And there's about 96 million of them registered as Communist Party members.

And then the Communist Party itself, we see them as controlling all of these government institutions at various different levels. And social institutions like universities, colleges, public bodies, and even private corporations, they often have a Communist Party branch within them. So, it looks like the Communist Party is controlling everything in China either directly or indirectly. But in fact, there's a lot of forces that prevent that kind of control and they've become very powerful over the last few decades. And they include corruption and *guanxi*, which is personal relationship networks in China, and self-interest of all sorts of people within this system. And that subverts the ability of the Communist Party to actually control the whole society or even itself as a party.

So, well-informed political-science experts have already talked about this a lot over the last few decades. They've said that the Chinese government or party is fragmented or decentralised in its authoritarianism.

There's a lot of local experimentation and competing vested interests among government officials and ministries' departments in the government. Bureaucratic bargaining between policy entrepreneurs and a dynamically-fluid braided stream of continually-interacting ad-hoc and contingent contradictions. It doesn't sound like a very tightly centrally-controlled system. And there's constant tension between the centrifugal forces trying to break China apart and centripetal forces, the Communist Party trying to keep things together.

So even though this has been identified by many political science experts, it hasn't really come through into when people talk about Chinese corporations. So, my book is about what I call the corporate ecosystem or corporate-political ecosystem. And I found in my research that it's equally a chaotic kind of maelstrom of interests. Complex corporate-political networks which frequently subvert the government and the party at every level. And it's uncentered and meandering, non-hierarchical, full of horizontal multiplicities which cannot be subsumed within a unified structure. So, it's more like this diagram on the book cover, which is the yin-yang diagram. Which you have to imagine this swirling around in a constant flux of interests, competing interests, and people working together in little groups. And often they subvert the central control of the government, and many of those are corporations.

So, in my book I've divided it into three main parts. The first part deals with individual Chinese corporations or corporate ecosystems such as private firms like Huawei, and Alibaba Ant Group, and then state-owned enterprises like the coal and power firms showing how they interact within that political ecosystem. And then the second part, it broadens out to look at the forces that act on the corporate ecosystem, and that includes the Communist Party, and then corruption, and personal networks, and also the legal system. Showing how those forces often in their interaction, they undermine the central control and allow corporations to do what they want. And then the third part looks at the impact of that system on the natural-and-human ecosystem, which is the environment. And also the economy in terms of the huge government-debt problem, and what changes must take place to prevent an environmental and economic catastrophe.

So, I'm trying to provide more accurate information to Australian and international policy makers through this account, and dispel some of the more lurid myths about the China threat. So, to illustrate this system, this ecosystem, I want to give some case studies on corruption and anti-corruption in this corporate-political ecosystem. I want to start with what I call 'parasitic symbiosis', which I'll explain in a minute.

But first, if we go to Xi'an City, which is in Northwest China in Shaanxi Province. You may know Xi'an as a historical city where the Terracotta Army, the burial sites of many emperors were, and it's a famous tourist place. But it in recent years as part of the government's investment in the west of China, trying to develop the western regions of China. There's been a lot of money pumped in into their aerospace industries and high-tech industries, as well as there's a lot of coal mining that's taken place in Shaanxi Province. So, you have to realise there's a lot of rich people coming out in Xi'an. Now just south of this city is this big range of mountains called the Qinling Mountains, which really divides the north of China from the central part of China. And it's a climate difference between the two regions, and it's a home to many unusual, rare species. I've heard that there's a special kind of panda called the Qinling panda, but I've never actually seen one, but you might be able to spot one if you look carefully on this slide.

So, it turned out that from 2005 onwards, a lot of illegal villas were being built on the foothills of these Qinling Mountains. And over a thousand of these properties, some of them were individual houses and some were big blocks of apartments, and they're all illegal because this was a national park and an ecological zone protected by the country, the state. And you could see on some of these slides how much they spread out all over this ecological zone, a huge development and very big houses. Some of them were designed as more like traditional-style Chinese homes, but they were all brand new. And this big one on the left, it's 1,100 square meters of property, plus 70-plus-square-meter doghouse, apparently, which is bigger than a lot of our apartments in Sydney. But you can see they're very luxury-type apartments for the new rich of Xi'an and for them to escape from the city.

So, it's what I call 'corporate-political parasitic symbiosis'. So, a parasite is basically an organism that benefits from living on another organism while harming that other organism, like a tick on a dog or hook worms in a human stomach. And when it comes to these real-estate developments, you get the real estate, the construction firms, which obviously want to make money out of this new market. So, they're happy to build in the ecological zones and make profits. And their customers are the newly-rich entrepreneurs from Xi'an who want a nice place to live outside the city, beautiful surroundings, but still within about 30-minutes' drive of the center. And then the local politicians, Communist Party officials, they don't get very high salaries, but they do have approval power for these developments. So, they're very much tempted to receive bribes or even receive properties in these developments in return for approving illegal kinds of developments in these ecological zones.

And so that's what happened over this 10-year period. And you get this corrupt symbiosis between these networks of people who are all doing this for their own benefit. But they use exemptions to the law, like saying, 'These are for rural purposes, or for the public benefit, or ecotourism resorts'. But everybody knew that this was just private homes for rich people.

So, who is harmed from this kind of parasitic behavior? The natural and the human environment is harmed in terms of the ecology is ruined and pollution increases in that region. And the Communist Party is also harmed because its politicians, its officials become corrupted by the money and the benefits that they can get, and they evade the law and the Central Party policies.

It's very difficult to crack down when you get this kind of small ecosystem involving local governments. So Shangguan Jiqing, who was the mayor of Xi'an at the end of this period, he said: 'Most of the buildings have been there so long, and there were complicated personal-relationship networks involved. I was afraid if we demolished all these buildings, it would harm the vested interests of powerful people. Especially as a new mayor, I was afraid of opening up this old can of worms.' And it's difficult to crack down because of the systemic resistance by the local government to the central 'government's orders. So, Xi Jinping, the president, sent down six executive orders over a period of about four years saying that: 'We need to uphold ecological civilisation. We need to protect the environment here on these Qinling Mountains. We need to demolish all these illegal villas.' But they were basically ignored. They demolished a few very poor-quality homes on the edge, but they basically ignored these orders from Xi Jinping.

So eventually he sent down a special anti-corruption working group from Beijing, with dozens of investigators led by a deputy minister in the government. And there was massive publicity in a China Central Television documentary about this. And most of the villas were demolished and dozens of these local party leaders were jailed for corruption. And the most-senior one was called Zhao Zhengyong, who was the Shaanxi party secretary of the province. He was given a suspended death sentence for his part in this, and some other corrupt deals involving mining firms, and those kind of shady transactions. He's the one in the top of this slide in the circle, and then the other one who's crying is a man called Wei Minzhou. He was the party secretary of Xi'an City. And he's crying because he's just realised he's being disloyal to the party and now he's going to jail for dozens of years. So suddenly he realises he's done a bad thing.

So, it seems like the problem was solved in this Qinling developments, but I'll come back to that in a few minutes as to whether it really was solved there. Oh yeah, and there's a picture of the demolitions taking place, which was broadcast on the Chinese TV and to make an example to show that the government is trying to uphold the environmental laws, and not allow people to build these properties in ecological zones. But you have to realise that Shaanxi Province is just one small microorganism within a much bigger corporate-political ecosystem. So, Zhao Zhengyong, he was quite a senior person, but he was only on the Central Committee of the Communist Party, one of the top 400 leaders in China, party leaders. And there have been even higher-level officials caught up in these kinds of corrupt schemes in other places as well.

And so, I want to talk a bit about Bo Xilai, who was in the top 24 leaders of China, the Politburo, and he was also the Communist Party Secretary of Chongqing, a huge city in southwest China. And this is an example of predatory corruption. It goes beyond just parasitic behaviour because it involves violence as well.

So Bo Xilai's wife was Gu Kailai, and she got to know this British business consultant called Neil Heywood. And he helped them with various things, like he helped their son, Bo Guagua, to get into an exclusive private school in the UK called Harrow. And he also helped them to hide some of their assets overseas.

But he was not the one who was actually paying for this, it was actually this CEO called Xu Ming who was CEO of the Shide Group, a private corporation. And his corporation had received lots of government contracts from Bo when he was in charge of various cities in China. And in return, he basically paid for them to have a very luxurious lifestyle and for their son to go overseas, right, to study. So, he's acting as the white gloves for the family, in other words, covering up their dirty hands by paying for all of their expenses. And so, one of the things, apart from the school fees for their son, and then Oxford University fees as he was an international student, all paid by that company. And then flying Gu Kailai and her son back and forward first class from the UK to China, which they couldn't afford on their regular salaries, right?

He also purchased for them a French villa in the south of France for a couple of million dollars' worth. And this was owned by a British Virgin Islands company, and the shareholders were a French lawyer and Neil Heywood secretly holding this on behalf of the family. And Neil Heywood, when he was doing all of these transactions, he got a bit impatient because he thought they weren't paying him enough commission. So, he complained, and Gu Kailai invited him to Chongqing to have an amicable resolution of this matter. And she gave him a cup of tea and poisoned him to death, so that was the end of Neil Heywood. And unfortunately for the family, Bo Xilai was having a dispute with his police chief in Chongqing. And the police chief fled to the US consulate in Chengdu in southwest China and revealed this whole tale of murder, basically. And then they were arrested, Gu and Bo were arrested, and they were sentenced to life imprisonment for both the murder, covering it up, and also the corruption that came out in the trial.

So, you can see this is a kind of network where they use a private corporation, they benefit that corporation, but in return, the corporation pays for all sorts of gains. And it's not for the benefit of the Chinese government, even though they are senior Communist Party officials, and it can sometimes lead even to violence. So that's another small microorganism if you like, in this whole corporate-political ecosystem. Now it turned out that there was an even-more-senior government official involved in trying to protect Bo Xilai, and possibly even trying to start a coup against Xi Jinping back in 2012, 2013. And that was Zhou Yongkang, he was one of the top-seven leaders of China in the Politburo Standing Committee.

And he had a whole network of people, not just Bo Xilai, but also various provincial-government leaders were helping him to protect his son, his son's business [Zhongxu], which was a private corporation. And they were getting huge amounts of deals from this state-owned enterprise, an oil company called CNPC Group. And then they were getting protection from the public security, which is the police in China, which Zhou Yongkang was in charge of.

And secondly, from this, a kind of enforcement was done by this mafia figure called Liu Han who used to either intimidate or even kill some people who opposed this corruption going on mainly in Sichuan Province in southwest China.

And allegedly Zhou Yongkang received either for himself or his family over US\$300 million worth of bribes and illegal gains from this corrupt scheme. So, he was like the protection umbrella, or he was like a tiger protecting foxes and rats in this predatory corruption scheme. So, he was arrested and then sentenced to life imprisonment in 2015. And that was another slightly larger microorganism, because it involved several provinces in China and state-owned enterprises as well.

So, you can see that with all of these kind of networks, which is not – that's just a few that I've mentioned, there were quite a lot of others as well. You can see how corruption and personal relationships, *guanxi*, and self-interest are getting in the way of the Chinese government's ability to govern. And so even though they're trying to prosecute, it's not necessarily having the impact because it's such a widespread systemic problem. They've had this anti-corruption campaign since about 2012, and millions of corrupt officials have been either disciplined or punished, and hundreds of thousands have been sent to jail in that period.

And it's caused this massive waste of resources, or this corruption. Two Chinese scholars estimated that about US\$6.9 trillion worth has been wasted on ineffective investment in infrastructure in China, because it's basically being used to feather the nests of a lot of these government officials. And obviously the corporations benefit from this as well. And it's led to a huge local-government debt, because a lot of this is financed by the state-banking system and the local governments.

So, it's also worsened the environmental crisis in China. Because a lot of the state-owned enterprises are building infrastructure that really isn't necessary, especially like coal-fired power stations. And there's a big overcapacity of these in China, because they're a good way to share the profits of a big infrastructure project, build a coal-fired power station and share the benefits with your friends and family, et cetera. And it's had an impact overseas as well with the so-called Belt and Road Initiative, which has been called a trail of corruption and waste overseas.

So, it's obviously not good for the Chinese government either. So, they've made all this effort to have this anti-corruption campaign. And question is, has it actually stamped out corruption? And if we go back to the Qinling villas case, it's one example where you can see that it hasn't quite got to the root of the problem. We said that Zhao Zhengyong was the party secretary of Shaanxi Province. He accepted bribes of over 100 million US dollars' worth and was given a suspended death sentence. But his boss for five years, during when these Qinling villas were being approved – and various other shady mining deals that he was prosecuted for – his boss as the actual party secretary at that time was someone who's now in the Politburo Standing Committee, still there today. And he was promoted back in 2012 up to the central government. And then in 2017 he became the director of the anti-corruption commission in China. So obviously he's not going to be prosecuting himself for corruption.

So, you could see they haven't quite got to the root of the problem, because some of the most-senior leaders are still in power and able to prevent prosecution of themselves. The other reason why they haven't stamped out corruption completely is because there is often a positive role that corruption plays within this developing society.

So, because China has developed so quickly, often the law can't keep pace with the changes that are taking place. For example, 390 million people have migrated from the countryside to the cities over this period of about 30 years, and they all need housing. And the cities really, if you'd go through the normal zoning regulations and approval for land clearance, et cetera, it would take a long time to do that.

And so, corruption or facilitation payments to government officials helps to overcome a lot of those regulatory blocks. Suddenly the government officials are very efficient, and entrepreneurial, and welcoming this kind of real-estate development because they can benefit from it themselves. And that also solves a social need, which is to provide housing, proper housing for all these rural migrants. It's what you could call symbiosis without predation.

So, the city of Shenzhen in the south of China near Hong Kong, it grew from about 400,000 population to over 14 million in the space of 30 years. And about 50 percent of the properties in that city were illegally constructed. They didn't follow the proper zoning rules or approval rules. Instead, these informal networks of developers, banks, lawyers, local villages that collectively owned the land, and buyers, and then cooperative

officials who are given these facilitation payments to turn a blind eye or approve these kinds of informal arrangements. So, they had contracts, they had mortgages, they had well-built properties, but they just were not legal. It was all done in an informal way, and 50 percent of the properties were like that. And now it's become so big, and there's so many properties that the government can't just knock them down. And so, a lot of them are now being legalised by the central government. So, you can see where the corruption actually facilitates a social purpose or helps to deal with this rapid social change, often it will be tolerated.

So, if you're a private corporation in this ecosystem, how do you survive or thrive while avoiding getting sucked into the more-predatory types of corruption? You have to do what's called build a community of mutual interests. In other words, to fill gaps in the market which the state-owned enterprises can't fill or are not able to do, they just don't have the capacity to do it. And then also share benefits with state-owned enterprises so they don't see you as a threat or just stamp you out because they're very powerful. And then indirectly benefit party officials without going to the extent of bribery and corruption. And hopefully grow too big so that the government then depends on you rather than you depending on them, because you're providing important economic or social benefits for China.

So, it's a kind of mutualistic symbiosis like humans and our gut bacteria. So we benefit from them digesting our food and they have a nice safe place to live. Or like this ox-pecking bird on the right which picks off flies and insects off the oxen and gets good meal out of it without having to hunt too much. And the oxen benefits because it's more healthy and doesn't have itchy skin all the time.

So, to put that into a context with a private corporation in China, Huawei Technologies, this is a very successful Chinese company, a privately-owned company. Which overseas it's often seen as a poster child for the China threat, but that's mostly a speculation, and misinformation. That's something I talk about a lot in my chapter on Huawei in the book. But they became successful by forming this community of mutual interests with their stakeholders. And so, on the one hand, they incentivise their employees through allowing them to get shares in the company. So most of Huawei employees in China own shares in Huawei through an investment fund, and they get profits when Huawei gets profits. And a lot of them became quite wealthy through this, and it gave them an incentive to work very efficiently and to make sure that Huawei was profitable.

Secondly, they used a similar method to get their customers involved in sharing the profits. So, the customers, because they produce telecom hardware and internet equipment that makes the internet work, basically, their main customers were the state telecom firms in China initially. So, they set up these joint-venture subsidiaries, which shared profits with the employees and officials of those telecom firms. Because their salaries were not very high, they were very happy to do this, because then they could get benefits from buying Huawei's products. So, these state firms had incentive to buy Huawei's products because the employees and officials would share in the profits as well. And it's a long-term thing, because the technology is constantly improving and it needs to be upgraded. So, you get 2G up to 4G and 5G, et cetera. And so, there's a constant profitable market there.

Huawei was also, I guess, benefited from the fact that you had a society where you had very few telephone users, very few mobile phones, and no internet in the 1990s. And then suddenly over a period about 10- to-15 years, you get up to about a billion people using mobile phones and the internet. So, they needed all these networks to be built, the hardware behind the internet and mobile phones. And so, there were huge opportunities available for private companies to fill in the gaps. And once they became big enough, and then they were actually so big, they were the biggest taxpayer in China. And so, they were benefiting the government in that way, and also through the government not having to rely so much on foreign technology firms to build their internet networks.

So that's forming a community of mutual interest. And these joint ventures were actually legal at the time, so I won't go into why that was, but it was not an illegal kind of corrupt network. It was done openly.

The other company I look at a lot in the book is Alibaba and Ant Group, another private corporation, they're related companies in a group. And Alibaba basically does e-commerce where millions of independent merchants can use their sites like Taobao and Tmall to sell products online. And when they first started out, there was no online-payment system in China, so they set one up themselves and they called it Alipay. And that solved a huge problem for people wanting to buy and sell online, that they could do it all as an online payment instead of going through a bank in the high street.

So, they managed to attract huge numbers of customers, building up to hundreds of millions of customers over a period of about 10 years. And they realised that they could use this data that they had of all these customers and merchants using their websites. They could collect this data and find out what the financial needs were of these people, how much money they had, and whether they wanted to invest money, and their credit ratings. So, they collected all that data through this Ant Group, and then recommended millions of customers to state-owned banks, insurance firms, and finance firms who would then sell financial products. So, they were doing the job of vetting the clients, if you like, or customers for the state enterprises who are providing the finance.

And it filled a gap, because most of these customers probably didn't have any much investments before, and suddenly they were able to buy these financial products and make a bit of profit out of that. So, you can see there they're filling a gap in the market. They're bringing in the state-owned firms who also benefit. And some of those finance firms, the big ones are run by princelings who are like the children of senior Communist Party officials. And so, they're indirectly benefiting some of these Communist Party officials as well. It's like an ecosystem, a mutualistic ecosystem where everybody basically benefits. I'm not saying that they're perfect, they had some problems as well, but I don't really have time to go into that.

So, you can see those groups like Huawei, Alibaba, and also the Shenzhen housing market, they're on the intersection between the private and the state. But they're using the state to benefit themselves and their own commercial interests, while at the same time trying to benefit the Chinese economy. And so, the government basically is happy for them to do that.

So, to finish off, I want to just remind you about the difference between the surface and the reality. The reality often is that individuals or individual corporations are acting in their own interests, even government officials often acting in their own interests. So it may be that corporations have government links, but you have to look at how those links are being used. It's not just a simple case of government controlling corporations. Often there's self-interest or family interests of government officials, which they dress up as national interest, but actually they're just benefiting themselves and not so much the country. And what looks like Communist Party control is often corporate capture of officials by these corporations.

So, in terms of the relevance for Australia, we have to realise that the central Communist Party is much weaker than it appears on the surface. They're engaged in this futile struggle to keep control, and sometimes seem to be losing that struggle with all these corruption cases. We shouldn't always blame the central government, or Beijing as it's often called, for when we see what looks like Chinese actors doing things we don't like. We need to pay more attention to the individual, local corporate self-interests and see how they are influencing the way that these people behave.

And we should also modify our views of Chinese corporations overseas. Because companies like Huawei and TikTok when they come overseas, they are really acting for commercial interests. And so, if we understand that, it might help to reduce international tensions. Because we're not looking at every single Chinese corporation as if it's an agent of the Chinese Communist Party trying to subvert Western society.

So, I'll stop there, and if you have any questions, I'll be pleased to hear them. And there may be questions from people online, which I'm supposed to look at my phone.

Okay. But thanks –

Dr Renata Grossi:

So, do you have questions online? While people [inaudible] maybe gather their thoughts.

Dr Colin Hawes:

I don't think so yet, but we'll find out.

Oh yeah, I should remind people who are online that I think you can post questions into the Q&A and then we should be able to see them, yeah.

Dr Renata Grossi:

All right, so none then at the moment. All right, well, let's go to the room then, and Alexandra.

Audience question:

Hi, Colin.

Dr Colin Hawes:

Hi.

Audience question:

Prior to today, before I was at UTS, many years ago I worked in a labour law assistance agency in Beijing. And I was very interested while there to see the role of both these, what we call 'government-organised, non-government organisations' and trade unions, which are unlike in Australia, within the corporate structure in China. So, the role of both of these types of organisations is also very much on the bridge between corporate and state. And I just wanted to ask you a bit in the book, from your knowledge, can you speak to a bit of how those kind of labour organisations play into the ecosystem, and to what extent they, if you like, fit into these mutualistic communities?

Dr Colin Hawes:

Well, what you find is that most private corporations, at least once they get to a certain size, they do have to have a labour union. And then they also – most of them have to have a Communist Party branch within their company. Those organisations are basically government organisations in theory. But the way it works is that the people who are in those unions and in the Communist Party branches within the corporations, they are actually employees of the firm or sometimes managers of the firm. And so they're being paid entirely by the company. And so, their interests are tied up with the commercial interests of the firm. And so most studies of the Communist Party branches within corporations have found that they've been co-opted by the corporations. If they're private corporations, they've been co-opted, because the people who are in those branches are relying entirely for their income on the corporation.

And to give one example what that means, the Communist Party secretary of Alibaba and Ant Group, he's one of their managers, and his shares in the company are worth about US\$2 billion worth. And so you could see he's got a real incentive to make sure that the company is successful, as opposed to letting the government come in and control them. So, there's a real tension there. Even though they are supposedly Communist Party

members, there's a real tension between their personal interests and the interests of what they're supposed to be, maybe helping the government to monitor what's happening in the corporation.

And the labour unions I think is, again, the studies have shown that mostly they don't necessarily act for the interests of the workers very well. They act more for the interests of the corporate controllers who are entrepreneurs. They may do a bit of negotiation about wages and things like that, but often it's not very helpful to the workers. So, you could say that they've been co-opted.

The other thing that I found interesting was that a lot of private corporations in China, again, the Communist Party secretary or the union head might be a member literally of the same family as the CEO, like their brother or something like that. And so, they're using that as a way to keep control over these organisations, which in theory are government. So, I found it very fascinating, and it is like you say, it's an example of this what looks on the surface like government, and actually it's not really. Yeah.

We have some questions. Yeah, I can see some on here, actually. One question from Alan McCormack is: 'What's the prognosis? More government crackdowns or more open corporate-regulatory regimes?' And I think the problem is that if they crack down completely on corruption, they will end up with very few government officials who are not in jail or being fired. And even back in around 2000, the former premier of China called Zhu Rongji, he said: 'If we crack down on all corrupt government officials, 90 percent of our government officials will not be able to serve in the government anymore.' So as I said, there's lots of different ways that corruption works. And so, I think they're focusing more on the more-serious cases that really undermine the society, and people working actively against the government as opposed to the ones that are just more taking facilitation payments.

They're trying to do that as well, but it doesn't seem to be working very effectively because it's very difficult to penetrate all these local networks of relationships.

So, I think my suggestion at the end of the book, which is a bit of a sort of blue-sky thinking, I guess, is that the government should admit the fact that they need their officials to be entrepreneurial. And instead, to make it transparent that these government officials are benefiting from the various economic development or corporate development in their regions, especially the local-government officials; to allow them somehow to share in the benefits of economic growth. Because at the moment, their salaries are still relatively low, and there's too many temptations for them to get rewards from the corporations that they're approving all the time, right? So I don't think more government crackdowns will work, but more incentive. Create incentives for government officials to build the economy instead of taking it all for themselves.

Hi, yeah.

Audience question:

[inaudible] but because there are so many people involved, but yet you said there were... I thought you said something like a million officials who have been charged or imprisoned, or whatever. Could you just say a bit more about that?

Dr Colin Hawes:

So yeah, I think the numbers I've seen most recently is about three million government officials have been disciplined in some way for corruption in the past 10 years. And of those, about 200,000 or so have been actually jailed. And then others have maybe lost their jobs, or were demoted, or disciplined in some way. So, they have tried to have a large-scale crackdown on corruption. And it's not just a political struggle against

some enemies of Xi Jinping, it's much more widespread than that. And it's not just the people who oppose Xi Jinping, it's even people who you'd think were supporting the government, but they were corrupt.

But then you have to realise that depending how you count, there's about 40 million government officials in China. Because it's a huge population, they need a huge government. So it's about just less than 10 percent of government officials have been disciplined in some way, and they say they still haven't got to the end of it. So, is that your question? It hasn't really covered the majority of government officials yet.

Audience question:

There's so many that lost their lives, have been given the death penalty.

Dr Colin Hawes:

Yeah, a few of them have been given death sentences for extremely-high amounts of bribes that they've taken in the hundreds of millions of dollars. And usually that has to be combined with some kind of violent behavior as well to get the death penalty.

It's interesting that the government officials tend not so much to be sentenced to death unless they've engaged in some kind of organised crime as well. Whereas the common criminals who just kind of whack someone on the head and kill them might get the death penalty. So, there is still a bit more leniency towards government officials compared to your average criminal. And that's one of the things that people complain about often, it's too lenient, the punishment.

Audience question:

Colin, could you just talk a little bit more about the difference between *guanxi* and gift-giving in the culture as opposed to corruption, where those lines are?

Dr Colin Hawes:

Yeah, so *guanxi* compared to corruption? So yeah, I have two different chapters on those things in the book because they do overlap sometimes.

But *guanxi* usually is taken to mean personal relationships. And it starts with family, your family members, you have very strong *guanxi* with them, but then can expand out to close friends and acquaintances depending on how you treat each other. You build those networks through sharing meals together, through giving gifts and receiving gifts as part of your normal human interaction. And there's nothing wrong with that, and so that's not corruption.

But the problem comes when you are like a corporation, you're a businessperson, and you're trying to build *guanxi* with a government official so that they will approve your projects or your business, approve the utilities being supplied to your business, something like that. You start giving them gifts and then in return you get a favour. And that would be considered corruption, not just for us, but in China as well.

So, it's very difficult to distinguish the two when it comes to business and politics, as to whether it's just normal human relationships and whether it's corruption. Businesses still make a real effort to develop government relations, even under the anti-corruption campaign. They have to be more careful about it, but often it's difficult to know where that line is drawn even for Chinese people. Yeah, so it's not surprising that foreign corporations find that very difficult to negotiate as well. And some of them have strayed over the line into corruption, too.

Yeah. Hi, yeah.

Audience question:

Hi, I'm Jennifer Hsu.

Some of your narrative framing resonates with the nonprofit sector or NGOs in China. Up until the 2010s, there was a lot of local innovation and entrepreneurialism within civil society. But since the 2016 Overseas NGO Law and the Charity Law came in, it took out a lot of the grey zones and made a lot of areas much more defined. So [it] gave organisations much more definite as what was possible, and what isn't possible. So, I think some of what you say, there's that tension between you want those regulations, you want those laws in place, but once you do, you lose a lot of the entrepreneurialism and the innovation that comes with it. So, where's the balance for corporations?

Dr Colin Hawes:

Yeah, that's definitely true. And you could say that the Chinese government has been trying to bring in a lot more laws and regulations to make things clearer in terms of what you can do, what you can't do. How government officials are supposed to behave, how non-government organisations can behave or can't.

But I guess the problem is that there's always, almost all these Chinese laws, there's discretion built in, which allows government officials to make decisions based on the circumstances up to a point. And like you say, that it's still not quite clear sometimes what is actually legal and what's illegal. Often it depends on whether the government has a political campaign that they want to enforce, whether they're suspicious of some of these charities, about what they're doing. And that makes things very unstable, I think. And that's one problem that a lot of businesses face in China and non-government organisations, that they don't really know what the rules are because they're constantly in flux. Yeah, and again, I'm not quite sure how you overcome that problem.

It's partly because the population of China is so huge. And how do you govern such a massive body? And you have to delegate to people lower down the chain, and then they use their discretion or they don't follow what they're supposed to from the center. It's a massive headache, I think, to govern such a large country. I don't think people have really considered that too much when they criticise China for some of the things that go wrong there. Yeah.

Dr Renata Grossi:

Hold on, I think you had some questions online.

Dr Colin Hawes:

Yeah, I better see if I can combine a couple of questions here. We might not be able to cover them all.

Dr Renata Grossi:

Well, maybe should we take the one in the room?

Dr Colin Hawes:

Well, I'll just do one from here. Here's an interesting one from Darryl Daisley: 'What is your view of state-owned enterprises operating in Australia in the resources sector such as iron ore? How close are they to Communist Party control and influence?'

So, in my chapter on state-owned enterprises, I basically show that a lot of those state-owned enterprises have now become more like commercial firms and looking to make a profit. And it's quite difficult for the Communist Party to control and influence them, especially when they go overseas. And that's resulted in some countries, in developing countries overseas, in quite a bit of corruption involving state-owned enterprises. In Australia there's not a problem with that, but I think you really need to view those state-owned enterprises as economic bodies.

At the same time, their senior executives in China, the parent companies, they are Communist Party officials mostly, and they are counted as government bureaucrats. They have a certain ranking on the official system, and they're vetted by the Party's organisation department before they're appointed. So, there's definitely an overlap, if you like, between the government and these firms at the highest levels in their headquarters in China. And so they're going to be at the same time trying to follow party policies more generally like: 'You can invest in this country. We want you to do this kind of investment overseas.' They're going to do that, but it's not like the Communist Party is interfering in the management of those firms as they're operating overseas. They tend to just follow the local laws, whether they're good or bad laws, and to adapt to the local commercial environment.

So, I don't think the idea that a state-owned enterprise is investing in Australian iron-ore firms or mining companies here, it doesn't really necessarily mean that the Chinese Communist Party is trying to undermine Australia in some way. They just need the resources. Yeah, okay.

Sorry, yeah. Somebody in the room?

Audience question:

Yes. A lot of the energy for this anti-corruption drive is coming from President Xi.

Dr Colin Hawes:

Yeah.

Audience question:

What happens when he goes? There's very deep-seated roots for this thing.

Dr Colin Hawes:

Yeah. Well, what happens when Xi Jinping goes, well, he's here for a while. He's not necessarily here for life, he has to be approved every five years, to be reappointed every five years, so you can't really say he's president for life yet. But at some point he will go.

Yeah, it's true that he has been really pushing the anti-corruption campaign, and he's, I guess, a stronger leader than some of the previous ones. But it did actually start just before he came to power. And the previous leaders like Hu Jintao, they were saying that the party is going to fall apart completely if we don't address this problem of corruption. And so, I do think it's a collective thing among the senior leaders.

At the same time, Xi Jinping has probably made a lot of enemies by prosecuting these very powerful people who have their own personal networks. And so, whether that will influence how long he lasts, or whether they will adapt this to make it less a kind of punishing campaign once he goes, I'm not sure. But right now, we don't really see any end to his rule, and so it's a bit of a hypothetical. You might ask instead whether he could last long enough without someone stabbing him in the back. Yeah, okay.

Dr Renata Grossi:

All right. I think we've run out of time. Maybe people can stay back and chat [inaudible] with Colin.

Dr Colin Hawes:

Yeah, sure

Dr Renata Grossi:

But Colin, you're challenging many ideas in this book, obviously not just about China, but about corruption, about self-interest, about corporations, and the whole world of business. So, thank you for enticing us all to now go and buy a copy of Colin's book, and join me in thanking Colin for this presentation.