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Exclusive: In China, the Party's push for influence inside foreign firms stirs fears

By Michael Martina



BEIJING (Reuters) - Late last month, executives from more than a dozen top European companies in China met in Beijing to discuss their concerns about the growing role of the ruling Communist Party in the local operations of foreign firms, according to three people with knowledge of the discussions.



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FILE PHOTO - A general view shows delegates raising their hands as they take a vote at the closing session of the 18th National Congress of the Communist Party of China at the Great Hall of the People in Beijing November 14, 2012. REUTERS/Carlos Barria/File Photo

President Xi Jinping’s efforts to strengthen the party’s role throughout Chinese society have reached the China operations of foreign companies, and executives at some of those entities don’t like the resulting demands they are facing.

The presence of party units has long been a fact of doing business in China, where party organizations exist in nearly 70 percent of some 1.86 million privately owned companies, the official China Daily reported last month.

Companies in China, including foreign firms, are required by law to establish a party organization, a rule that had long been regarded by many executives as more symbolic than anything to worry about.



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He said the company's joint venture partner was pushing to amend their agreement to include language mandating party personnel be "brought into the business management organization", that "party organization overhead expenses shall be included in the company budget", and that posts of board chairman and party secretary be held by the same person. Changing joint venture agreement terms is the main concern, the executive said, noting that his company had thus far resisted.

"Once it is part of the governance, they have direct rights," he said.

The State Council Information Office (SCIO), which doubles as the party spokesman's office, told Reuters in a faxed statement that there is no interference by party organizations in the normal operating activity of joint venture or foreign-invested companies.

However, it added, "company party organizations generally carry out activities that revolve around operations management, can help companies promptly understand relevant national guiding principles and policies, coordinate all parties' interests, resolve internal disputes, introduce and develop talent, guide the corporate culture, and build harmonious labor relations."

"They are widely welcomed within companies," the SCIO said. MAJOR DECISIONS

Of the 13 executives, all from different foreign companies, Reuters interviewed for this story, 8 expressed concerns about increasing demands from the party or noted increased activity from party groups. They all spoke on the condition that they and their companies not be identified given the sensitivity of discussing relations with the party.

Two of 20 major multinationals queried by Reuters - Samsung Electronics Co Ltd
30.KS and Nokia NOKA.HE - confirmed having party units in their China operations.

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Carl Hayward, general manager and director of communications at the European Chamber’s Beijing chapter, acknowledged the meeting was held to “understand from our members if party structures are being formally introduced into the governance of joint ventures.”

“We have not noted any formal change of policy that reflects this. This is as we would expect since such a change would act as a deterrent to foreign investment in China,” he said.

“REAL MUSCLE”

Under Xi, the party has sought to address the “weakening, watering down, hollowing out and marginalisation” of party leadership at state enterprises, the party’s official People’s Daily  in June. The paper cited an official with state-owned oil giant Sinopec as saying the

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several decades, only under Xi has “some real muscle” been put behind the goal, said Jude Blanchette, who studies the party at The Conference Board’s China Center for Economics and Business in Beijing.

A significant number of major foreign companies operate in China through joint ventures with state enterprises. Foreign business groups have complained that their members are forced to allow Chinese partners access to their technology or risk losing market access.

Many Chinese state enterprises listed on the Hong Kong stock exchange have this year altered their articles of association to give an explicit role to internal party committees.

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One country head at a major European manufacturer with a southern China joint venture said that late last year it allowed a party unit to meet on company premises – after hours. The party unit asked for overtime pay to hold the meeting, which the company rebuffed. But then it also demanded the company hire more party members, and even tried to weigh in on investment decisions.

“That’s when we said this is a no-go zone. We didn’t anticipate that they would discuss investment decisions,” the manager told Reuters.

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Still, several executives with foreign companies in China said that the role of party units was benign and could help to resolve issues with officials. A party member at a U.S.-based Fortune 500 company in Shanghai said her firm's unit was not involved in business matters and instead engaged in activities such as planting trees and sponsoring children. "They will give you some tickets to see movies together. When the State Council has a meeting and there's some news they will send bullet points by email," she said.

Additional reporting by John Ruwitch, Adam Jourdan, David Stanway, and Brenda Goh in Shanghai, Jiang Sijia in Hong Kong, and Matthew Miller and Chen Aizhu in Beijing; Editing by Tony Munroe and Martin Howell

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