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What Concerns Chinese Business Operators These Days (U.S.-China Relations Study Group Commentary No.16)

Tanaka Nobuhiko
Partner
Brighton Human Co., Ltd.

1. Severe “money jam” throughout the country

Perhaps the most vexing problem for Chinese business operators today is the problem of not getting paid. There have always been problems with late payment or failure to collect receivables for individual projects. However, the current problem is that there is a chain reaction creating a situation in which “I can’t pay because I can’t get paid.”

The author’s brother-in-law runs a manufacturing company with about 70 employees in a certain city in Jiangsu province. The business is production and sale of equipment used in subways, high-speed railroads, wind power generation, etc., and the main customers are state-owned infrastructure-related companies. In China, it is customary to make a lump-sum payment of the year’s unpaid bills when the Chinese New Year approaches each year. According to the author’s brother-in-law, one of his company’s major clients, a very large state-owned enterprise (a central enterprise), was supposed to pay his company about RMB 5 million at the end of 2022, but, as of New Year’s Eve, only about RMB 1.6 million had been received. In all the years of doing business with that client, this was reportedly the first time this had happened, and they were very surprised.

As a result, my brother-in-law’s company had to delay payment to many suppliers. Employees were also unable to receive year-end bonuses, resulting in a situation in which only minimal wages were paid. According to what he says, he is still better off because he was able to receive partial payment and also because the client is a large state-owned enterprise, so his company will eventually receive payment.

Unfortunately, no one complains about this situation. Everyone knows that the other party wants to make payment but that they really don’t have the money. That means there is no point in complaining, and if you confront a client inappropriately, clients and even your job could be lost permanently, so there is nothing to be gained. No one says anything; they keep quiet and wait for payment.

China is a society made up of networks of human relationships, so within each network, even if someone has something to say on a day-to-day basis, they don’t say it out of consideration for the other person. So even if they don’t get paid, they persevere until the last minute. It is rare to question the other party or file a lawsuit. The current situation is one of endurance due to this Chinese-style

human relations and the situation in which “I am not paying what should be paid so I can manage somehow even if I am not paid.” This situation cannot continue indefinitely.

2. Increased political involvement in private companies

At the beginning of 2023, it was reported on the news that the Organization Department of the Central Committee of the Chinese Communist Party in western China’s Shaanxi province had decided to dispatch promising young Party cadres as “First Secretaries” to 25 leading private enterprises in the province, and that specific personnel have already been selected. This decision has caused quite a stir among managers of private enterprises. Although there is no clear authority for the position, if a promising elite cadre candidate selected by the Party’s Organization Department is dispatched to a private company under the title of “First Secretary,” that fact is that it will be difficult for the company to resist the person’s wishes, considering the national situation in China.

According to media reports, such a system is being introduced not only in Shaanxi province, but also in other provinces and cities. However, public opposition has been strong since the decision was made on this policy, and there have been few further media reports on this system. It is possible that the implementation of the system has been put on hold due to the extent of public opposition. It remains to be seen whether the system will be expanded nationwide, but it can be said to be an indication that politics is beginning to be used to exert influence on the governance of private companies.

In the area of private companies, the Chinese government has reportedly acquired “golden shares” (shares with veto rights) in companies controlled by Chinese e-commerce giants Alibaba Group Holding Limited and Tencent Holdings Ltd. In China, these are called “special control shares,” and their acquisition allows for the dispatch of directors and the ability to influence management decisions, essentially the same method applied in 2021 to Didi Chuxing Technology Co., known for its app-based transportation services, and ByteDance Ltd., known for its video-sharing app TikTok. The fact that the Chinese government is now in a position to exercise its veto power, albeit indirectly, over two of China’s leading private enterprises is sure to further strengthen government involvement in and oversight of private enterprises.

3. “Internet socialism”

Recently, the concept of “Internet socialism” has been attracting attention in relation to the topic of corporate management. By fully utilizing the inherent power of the Internet, the concept is based on the idea of creating a new “Chinese-style” socialism that is more efficient and has fewer disparities, rather than following the conventional Western-style democracy and market economy,. While this approach is not a direct rejection of private enterprises, some have suggested that it may be aiming for a new form of “public-private partnership.”

The concept of Internet socialism was proposed by Zhao Yanjing, professor at Xiamen University

and Vice President of the Urban Planning Society of China (UPSC).¹ He believes that China has achieved efficient and well-planned economic growth by public ownership of land, which is the foundation of economic activity and a highly public asset, and that, just like land, the Internet is a highly public infrastructure, and it is only natural that the government should be involved in its management and operation.

A concrete manifestation of this concept has been the rapid expansion in recent years of the non-profit China Co-op (All China Federation of Supply and Marketing Cooperatives, ACFSMC). As of 2021, it has 170,000 directly managed stores nationwide, with a transaction value of RMB 6.26 trillion, or nearly 7% of China's total retail sales of consumer goods of about RMB 44 trillion.

Rather than viewing the spread of the Internet as a threat to the socialist system, the view that the coming of the Internet society is favorable to the realization of socialism is gradually gaining strength.

4. Losing expectations for the future

During the 40 years of reform and opening-up, the Chinese people's standard of living improved rapidly. This was a great achievement. However, behind this improvement, Chinese citizens have done many "impossible" things.

They take out a loan of more than half of their monthly income to buy a house, pay high monthly fees to send their children to prep schools, give them culture lessons, and send them to university at any cost.

The reason why managers of private enterprises have invested heavily and taken risks in their businesses is based on their expectations for the future of the country. They believed that if they persevered now, things would be better next year. Everyone thought so, and so they bravely moved forward, knowing that what they do is somewhat impossible. This mindset was the driving force of China's growth.

This expectation has been severely damaged by the blatant oppression of private enterprises and the mismanagement of Zero-COVID 19 and other measures. Chinese society is losing its greatest engine for growth.

¹ Zhao Yanjing, "‘土地财政’是中国和平崛起的重要基础 [‘Land finance’ is an important foundation for China's peaceful rise]," *GuanchaNews* website (December 1, 2022) https://www.guancha.cn/zhaoyanjing/2022_12_01_669328_s.shtml (viewed February 22, 2023).