



Get Ready for a Communist Chinese Commissar Influencing Your Asset Manager

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In a move that has generated little notice in the West, just days ago the Chinese Communist Party took a new and dangerous step to influence Western investment funds operating inside China.

The China Securities Regulatory Commission formally issued guidance to publicly offered securities investment funds that “public fund companies should set up party organizations, conduct party activities and provide necessary conditions for party organizations, according to the Constitution of the Chinese Communist Party.”

Translation: fund managers must make new room for CCP lackeys within their China-based operations. Such regulations have been around for some time, in either a symbolic or loosely-enforced way. This, though, is the first time companies will be formally expected to abide by them. That could impact their bottom lines, other American investors, and American power.

The CCP’s decision to insert itself into the life of commercial enterprises is not new. The 1993 Company Law stipulated that all companies based in China, both foreign and domestic, must allow the establishment of party units inside their operations. Under Xi Jinping, expanding the Party’s presence inside of businesses has become an even greater priority.

In 2018 it became *mandatory* for domestically-listed companies, including foreign-owned joint ventures, to establish a Party unit. Consequently, as Jérôme Doyon noted for the Institut Montaigne, “Today, over 92% of China’s top 500 private enterprises host party cells.” It won’t be long before that figure hits 100 percent.

Putting Party cells inside companies gives the CCP an outstanding opportunity to drive its Marxist-Leninist ideology. Party cells recruit business professionals into the Party. They influence hiring and other HR decisions. Party apparatchiks keep up the Party line in business and social settings: some have reportedly even organized tours of memorials in China devoted to Party history.

Party agents are almost certainly complicit in intellectual property theft targeting foreign firms. This layer of political influence is all about power. It advances the mandate written into the CCP charter in 2017: “Party, government, army, society and education – east and west, south and north, the party leads on everything.”

The timing of this mandate is no coincidence. In 2020, China granted Western money managers the right to set up wholly-owned subsidiaries in China. Big hitters like Goldman Sachs and J.P. Morgan have since taken advantage. Now that their interests are becoming more entrenched, it’s the perfect time for the Party to sink its teeth into their operations.

Formalizing the presence of Party cells also gives the CCP a greater ability to monitor and shape business decisions at a time when the CCP is increasingly concerned with both an economic slowdown and business interests challenging Party power (think of how it has cracked down on Jack Ma’s Ant Group and other large Chinese tech firms in the past three years).

As other analysts have also speculated, it probably won’t happen that Party members will become voting directors on executive boards of wholly-owned subsidiaries. The warning lights, though, should be red for joint ventures.

No matter the corporate structure, the fiduciary risk to decision-makers is clear. What happens when an investment decision runs counter to the Party’s intent for the Chinese economy or financial markets? Will foreign firms bend the knee to Beijing under the threat of a revocation of a license to issue securities?

How do fund managers in New York feel about a Chinese equivalent of the fanatical communist, Strelnikov — Pasternak’s antagonist in “Dr. Zhivago” — whispering in the ear of a portfolio manager in Shanghai? Moreover, how do American investors holding trillions in index funds feel about it? A greater Party presence also contradicts the kind of environmental, social, and governance mandates now guiding BlackRock and a growing number of investment firms.

The presence of potentially dozens of Party commissars inside a relatively large operation injects undue political influence into business decisions. Does the social in “ESG” mean anything when a company is willing to accommodate agents of the same CCP that perpetrates the Xinjiang genocide and could be preparing to invade Taiwan?

Over the past four years or so, both American political parties, the national security community, and the American people writ large have adopted more hawkish views on China. Calls such as the one offered by the CEO of insurance giant Chubb, Evan Greenberg, last Monday —“We must recommit to an interest-based approach to our economic relationship with China” — are increasingly tone deaf and strategically unsound.

Uncritically sustaining an economic relationship with China over the course of five decades has strengthened a country that regards itself as an adversary of the United States. Accepting communist influence is the price of admission. The longer American companies continue to pay the fare, the more the American people will be exposed to financial and national security risk at the hands of the Chinese communist party.