

The Party and the Firm*

Preliminary Draft

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Abstract

This project documents the rise of the Chinese Communist Party's influence on firms in China over the last decade. We propose novel quantitative measures of Party influence and present recent trends in those measures. We corroborate qualitative work and find a sharp increase in Party influence since 2017. Furthermore, we find that influence has been concentrated in state-owned firms. Domestic private and foreign firms exhibit much lower overall levels of influence, most of which is rhetorical.

JEL: P21, P31, D22, G38

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It is crucial for economists and policymakers to understand the relationship between China’s state and its economy. Scholars and analysts have identified a notable shift in this relationship over the past decade. From 1979 to the 2000s, China implemented a form of state capitalism that prioritized economic growth and featured levers like direct state ownership and state equity holdings. More recently, the state has politicized the private sector, increased the role of Party ideology in economic policy, and prioritized political survival over economic growth (Pearson et al., 2021; Lin and Milhaupt, 2021a). Some have dubbed this new system “party-state capitalism” (Pearson et al., 2021), a term we adopt. Recent interventions appear distinct from and less observable than state ownership and prior forms of state intervention. This opacity has led to speculation about its extent and motivations and generated uncertainty among foreign investors and geopolitical counterparts.¹

Several questions arise from these observations. First, can one systematically measure Party-state influence, particularly as a distinct object from more traditional forms of control? What share of firms exhibits Party-state influence over time? Does influence reach different firms than traditional state capitalism, including private and foreign firms? What are the characteristics of firms that exhibit more Party influence?

To address these questions, we construct quantitative, general, and replicable measures of Party-state influence for Chinese listed firms. We use these measures to document new, representative facts about China’s changing economy from 2011-2021. Measuring Party-state influence is challenging for several reasons. First, it is distinct from traditional state control, commonly assessed via legal ownership or equity holdings. Second, de jure requirements for Party influence may differ substantially from firms’ de facto behavior. Finally, direct measures of Party influence are not generally available to outside researchers.

Using natural language processing techniques, we address these challenges by constructing measures of Party-state influence from public firm documents. We identify phrases in the

¹Analysis of economic <https://www.csis.org/analysis/chinese-communist-party-targets-private-sector>, geopolitical <https://www.economist.com/leaders/2020/08/13/xi-jinping-is-reinventing-state-capitalism-do-not-underestimate-it>, and investment <https://www.economist.com/special-report/2021/06/23/the-party-is-eager-to-expand-its-influence-within-business> implications.

firm documents that are specific Party slogans or firm governance rules indicative of Party influence. Some of these measures are more rhetorical and could represent “cheap talk”, while others directly relate to firm governance, like promotion rules, and are better measures of Party influence over firm behavior. We also aggregate information from numerous phrases to rhetorical and behavioral indices of Party influence. Our measures are based on public data, comparable across many firms, and replicable in various contexts.

Using these quantitative measures, we document several new facts about the role of the Party in China’s economy. 1) Party influence has grown sharply in all types of firms since 2017, which coincides with the 19th National Party Congress. 2) Influence increased much more in state-owned enterprises (SOEs) than domestic private firms and foreign-owned firms. 3) Party influence differs by sector and is highest in intensely regulated sectors, like utilities, finance, and energy. 4) Party influence is more rhetorical than behavioral among domestic private and foreign-owned firms.

We identify correlates of Party influence and find that ownership status is an important predictor. While state ownership increases the extent of Party influence, foreign ownership and listing on a foreign stock exchange are negatively related to influence. Finally, we discuss our ongoing research focusing on identifying the causes and consequences of Party influence in firms.

Overall, our descriptive findings suggest that the intervention of the Party in private and foreign firms has so far been less about firm governance than rhetoric, such that firms are signaling loyalty to the government more through words than deeds. One implication for foreign investors and businesses is that, in contrast to some observers’ concerns, the recent wave of Party influence has not yet dramatically altered firm governance in all corners of the economy.

Our work adds to a multi-disciplinary literature studying the recent rise of political influence in the Chinese economy. [Pearson et al. \(2021\)](#) amass qualitative evidence about the phenomenon, including its forms, motives, and consequences. [Lin and Milhaupt \(2021a\)](#)

investigate the adoption of corporate charter amendments among Chinese firms from a legal studies perspective. They find that state-owned firms have higher adoption rates and compliant private firms tend to be politically connected. We complement these papers by capturing broader forms of Party influence, both rhetorical and behavioral, by studying Party influence’s aggregate behavior, behavior over time, and key correlates. In ongoing work, we also analyze the causal drivers and economic consequences of Party influence.

This paper also speaks to the literature on state-firm relations in China. One well-explored means of state control is state ownership. Several studies have delved into the role of state ownership on China’s economy (Song et al., 2011; Jefferson et al., 2000). Additionally, others have examined the consequences of reform and privatization (Hsieh and Song, 2017; Berkowitz et al., 2017; Bai et al., 2006). Further research has investigated alternative forms of state influence, including equity ties (Bai et al., 2020), credit access (Cull and Xu, 2003), regulation (He et al., 2020), and political connections (Li et al., 2008). One of our contributions lies in presenting a generalizable measure for a novel dimension of state influence and using this measure to understand the extent to which it is similar or different from established modes.

1 Background

China’s recent economic history can be delineated into several periods (Naughton, 2006). The socialist system of 1949 to 1978 featured a centrally planned economy and rural collectivization. During the subsequent reform era, the country opened up to foreign trade and relied more on market forces to allocate resources, though the state retained influence over firms via regulation, access to capital, state ownership, equity holdings, and other tools. Starting in the late 1990s, the government further liberalized the economy by implementing far-reaching reforms in the state sector, privatizing or closing 80 percent of state-owned firms (Hsieh and Song, 2015; Song et al., 2011). During these reforms, SOEs also adopted more

market-based modes of corporate governance.

As a result, since 1979, state influence over firms has been a continuum. While some SOEs are highly controlled, others are more subject to market forces. And while some private enterprises operate more similarly to their counterparts in the West, others are subject to heavy state influence through regulation, governance, and more.

Observers have recently noted another shift in China's economic governance approach (Pearson et al., 2023; Lin and Milhaupt, 2021b; Montaigne, 2021). This section describes important changes in state-firm relations in China since Xi Jinping's tenure in 2012. The shift in governance is encapsulated by a new ideology presented at the 19th National Congress: "Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era," which was incorporated into the CCP's constitution.²

During this period, the state sought to give the Communist Party greater influence within firms.³ These forms of influence differ from traditional forms, like state ownership and state equity holdings. Instead, recent influence tends to focus on corporate charters and Party cells, which we discuss below.

Charter amendments. In the last decade, firms have been encouraged, and sometimes mandated, to adopt Party-related provisions into their corporate charters. Under Chinese law, these charters codify the rules under which companies operate.⁴ During Xi Jinping's

²Xi Jinping (2017): "Win Decisively to Build a Moderately Prosperous Society in All Respects and Strive for the Great Victory of Socialism with Chinese Characteristics in the New Era" https://www.gov.cn/zhuanti/2017-10/27/content_5234876.htm

³Conceptually, we treat the state as interchangeable with the Communist Party. This choice follows from scholarship that classifies China as a Party-state. As Wright (2016) writes, "even though the Party and state are nominally separate, the Party ultimately controls the state" since "CCP leaders occupy virtually all important positions in state institutions" and "the CCP has final authority over all political decisions."

⁴Article 82 of the Company Law of the People's Republic of China reads: The articles of association of a joint-stock company shall specify the following matters: (1) Company name and address; (2) The company's business scope; (3) Company establishment method; (4) The total number of shares of the company, amount per share and registered capital; (5) The name of the sponsor, the number of shares subscribed, the method and time of investment; (6) The composition, powers and rules of procedure of the board of directors; (7) Legal representative of the company; (8) The composition, powers and rules of procedure of the board of supervisors; (9) Company profit distribution method; (10) Reasons for dissolution and liquidation methods of the company; (11) The company's notification and announcement methods; (12) Other matters deemed necessary to be stipulated by the general meeting of shareholders. https://www.gov.cn/flfg/2006-10/29/content_85478.htm

tenure, several Party-related policies and directives have been issued regarding corporate charters.

In 2015, the central government issued a directive encouraging SOEs to give the Party formal power in corporate governance via charter amendments. In 2016, Xi Jinping gave speeches emphasizing that SOEs should grant the Party decision-making power via their charters. Some private companies also voluntarily adopted these provisions (Lin and Milhaupt, 2021b).

In 2017, the State-owned Assets Supervision and Administration Commission of the State Council (SASAC) issued concrete examples of provisions for SOEs to adopt. Chen et al. (2022) categorized these model amendments into three groups: (1) “symbolic provisions” that reference the CCP Constitution in the corporate charter; (2) “decision-making provisions” that give the Party power over business decisions in SOEs; and (3) “personnel provisions” that require Party member appointments and Party supervision of personnel.

In 2020, the Central Committee issued a directive that encouraged private firms to adopt the provisions, which anecdotally a substantial number of firms complied with.⁵

Party cells. The Chinese Party-state has also increased the reach and power of Party cells, which are committees of CCP members within firms. Their constitutionally defined purpose is “to implement the Party’s principles and policies within the enterprise, promote the overall development of the enterprise, and ensure that the enterprise closely follows state laws and regulations”⁶. In practice, Party cells vary widely in their activities, funding, and responsibilities; many groups primarily meet to study political theory and engage in social events. According to the Party’s Constitution, any organization with three or more Party members must form a Party cell.⁷ This rule was not widely enforced until recently, particularly in the private sector.

⁵Central Committee (2020): “Opinion on Strengthening the United Front Work of the Private Economy in the New Era” http://www.gov.cn/zhengce/2020-09/15/content_5543685.htm

⁶Chinese Communist Party (2017): “Constitution of the Communist Party of China” <https://www.12371.cn/2017/10/28/ARTI1509191507150883.shtml>

⁷Communist Party of China (2017): “Constitution of the Communist Party of China” <https://www.12371.cn/2017/10/28/ARTI1509191507150883.shtml>

Since 2012, there were two major policy changes regarding Party cells in firms. In 2018, the central government required all listed companies to establish a Party cell (Montaigne, 2021; Blanchette, 2019). Then, in December 2019, the CCP encouraged all private enterprises to carry out Party-building efforts, including maintaining and funding Party cells (Lin and Milhaupt, 2021b).

These developments raise several empirical questions. First, to what degree did firms comply with these changes? Did the changes increase actual Party influence in firms? Are they distinct from older forms of Party control, like state ownership and equity holdings? And, finally, what are the causes and consequences of this new form of Party influence? These questions guide our analysis.

2 Measuring Party-state Influence

We use the appearance of specific phrases in public firm documents to measure Party-state influence. Conceptually, we separate Party influence into two forms: influence that is mostly rhetorical and influence that explicitly governs firm behavior. Our measurement proceeds in two steps.

First, using the WIND Financial Terminal, we build a corpus of Chinese text using all of the annual reports and corporate charter amendments for A-share listed firms from 2011 to 2021. The data include 24,916 annual reports and 17,502 corporate charter amendments from 4,089 firms. Annual reports are governed by Chinese securities law and must contain detailed company information, including the firm’s name, contact information, balance sheet, income statement items, and more.⁸ Corporate charter amendments are documents used to change a company’s charter, which defines the business’s purpose, scope, how it issues shares, operations procedures, personnel processes, and more.⁹ Amendments are generally ratified

⁸China Securities Regulatory Commission (2017): “Information disclosure of companies that issue securities to the public. Content and Format Guidelines No. 2 – Content and Format of Annual Reports” <https://www.sse.com.cn/lawandrules/regulations/csrcannoun/c/4444089.pdf>

⁹China Securities Regulatory Committee (2022): “Guidelines on the Articles of Association of Listed

via a two-thirds vote of all shareholders (Lin and Milhaupt, 2021b).

Second, we create a dictionary of key phrases that indicate Party-state involvement. Our base dictionary is “Xi Jinping”, “Socialism with Chinese Characteristics for a New Era”, “Party cell”, “Party cell funding”, and a collection of governance rules about operations and personnel.¹⁰ The first two phrases comprise the most important slogans for economic governance in the Xi era; the next two phrases represent the best measures of party cell activity; and the governance rules capture rules listed in the government’s 2017 model corporate charter.

Each measure captures a slightly different dimension of influence. For example, some are primarily rhetorical and do not necessarily imply a change in the firm’s operations, strategy, or other behaviors. They could serve as a potentially low-cost signal of loyalty or compliance. On the other hand, some measures capture the allocation of funds within the firm or add legally binding rules to the firm’s corporate charter. These measures are more likely to capture real behavior. We group phrases in our dictionary by those more likely to be *rhetorical measures* and those more likely to be *behavioral measures*.

Our two measures of rhetorical influence use annual reports as their corpus of text, as investors and the government widely read these documents.

Xi Jinping. The first measure is an indicator for whether a firm’s annual report included the exact phrase “Xi Jinping”¹¹ in a given year. Since 2012, Xi has served as the General Secretary of the Chinese Communist Party, and in 2013, he assumed the presidency of the People’s Republic of China. For comparison, we also consider the phrase “Hu Jintao”, Xi’s predecessor.

Socialism with Chinese Characteristics for a New Era. The second measure is an indicator for whether the exact phrase “Socialism with Chinese Characteristics for a New Era” appears in a firm’s annual report in a given year, which we call “New Chinese Socialism”

Companies" <https://www.sse.com.cn/lawandrules/regulations/csrcannoun/c/5701845.pdf>

¹⁰A list of all of these rules is reported in Appendix A; we follow the categorization of Lin and Milhaupt (2021b).

¹¹Chinese versions of these key phrases are in Appendix A.

for short. This phrase was first proclaimed in 2017 at China’s 19th National Congress (Tobin, 2020).¹²

The four subsequent measures of behavioral influence use corporate charter amendments as their corpus of text. Corporate charters are legally binding and define firms’ de jure governance rules. We therefore consider them better proxies for firm behavior.

Party Cell. The third measure is an indicator for whether the phrase “Party cell” or its synonyms appear in any charter amendments adopted by a firm in a year. Party cells are low-level branches of the CCP operating within firms and other civil organizations. These cells serve a variety of roles, including organizing study sessions and social events, recruiting Party members, and providing welfare and training (Yan and Huang, 2017). Conceptually, this measure jointly captures whether a firm has a Party cell and whether any rules regarding it have changed.

Party Cell Funding. The fourth measure indicates the phrase “Party cell funding” and its synonyms in each firm’s corporate charter amendments for a given year. These phrases indicate not only that corporations have a Party cell but also that they are allocating funds to it. Because this phrase involves resource allocation, we consider it a behavioral measure.

Operations Rules. The fifth measure captures the inclusion of specific rules in corporate charter amendments. Specifically, we consider a list of rules that increase the power of the Party in firms’ day-to-day operations. The central government published the exact text of these rules in an example corporate charter in 2015 (Lin and Milhaupt, 2021b). Rules include “the board of directors should listen to the opinions of the company’s Party committee in advance when deciding on major issues of the company” and “the Party should research and discuss the company’s reform and development stability, major business management issues, and major issues involving the vital interests of employees.” We complete a fuzzy match for each phrase and create an indicator for whether the best match was sufficiently strong. A more detailed discussion of the process is in Appendix A.

¹²To distinguish this measure from the general phrase “Socialism with Chinese Characteristics”, we include only mentions with the prefix “for a new Era”.

Personnel Rules. The sixth measure is very similar to the fifth, but instead of rules that increase Party influence over firm operations, it captures rules that increase Party influence over personnel decisions. Rules include “The Party committee puts forward opinions and suggestions on candidates nominated by the board of directors or the general manager” and “Eligible Party committee members may enter the board of directors, board of supervisors, and management through legal procedures”. We use the same matching procedure for Operations Rules, as described in Appendix A.

Among these measures, we treat the first two as rhetorical. Firms are not legally bound to take action if they include Xi Jinping’s name or the phrase “Socialism or Chinese Characteristics for a New Era” in an annual report. On the other hand, we treat the latter four phrases as behavioral, as these phrases represent specific institutions, resource choices, or governance rules. Moreover, corporate charters are legally binding under Chinese law.¹³

Table 1 reports summary statistics for the six raw measures of Party influence. Panel A reports values for all listed firms, Panel B for state-owned enterprises, Panel C for private firms, and Panel D for foreign-owned firms. A few cross-sectional patterns emerge. First, state-owned firms are much more likely to mention all phrases than their private and foreign counterparts. Second, foreign firms exhibit the lowest levels of influence. Third, private and foreign firms use rhetorical phrases more than behavioral phrases.¹⁴

Appendix Section A.3 lists examples of company statements, each containing at least one of the key phrases we measure from annual reports for both state-owned and private firms. For example, one private firm stated in its 2021 annual report that “In 2022, the country will usher in the 20th National Congress of the Communist Party of China. Guided by Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, the country will

¹³PRC Company Law, Art. 11. “Articles of association shall be formulated according to law when a company is incorporated. The articles of association of a company shall have binding force on the company, its shareholders, directors, supervisors, and senior managers.” https://www.gov.cn/flfg/2006-10/29/content_85478.htm

¹⁴Throughout the analysis, we use firm ownership categories from CSMAR. We treat any firm with SOE ownership, either whole or mixed, as an SOE. We treat any firm with foreign ownership, either whole or mixed, as a foreign firm unless it is already coded as an SOE. We treat the remaining group as domestic private firms.

fully adhere to the spirit of the 19th National Congress of the Communist Party of China and the previous plenary sessions of the 19th National Congress, continue Party-building efforts, and seek progress while maintaining stability [...]”.¹⁵

3 Facts about Party Influence

With these six measures of Party influence, we can present new descriptive facts about the role of the Party in the Chinese economy. We document the extent, development, and heterogeneity in Party influence. We pay particular attention to whether the rhetorical and behavioral measures behave differently.

Fact 1: Party influence has grown sharply since 2017. In Figure 1, we plot the Party influence measures for a sample of all listed firms. The y-axis reports the proportion of all listed firms using a key phrase in a given year. The proportion of firms mentioning any of the key phrases remained below 5.8% from 2011 to 2016.¹⁶ However, starting in 2017, we find a sharp increase in all key phrase mentions. By 2021, 27.2% of listed firms mentioned Xi Jinping, 14.7% mentioned Socialism with Chinese Characteristics for New Era, and about 15% had adopted Party-recommended operations and personnel rules. The same pattern is not present for China’s previous leader, Hu Jintao. Throughout his tenure of 2002 - 2012, no more than one percent of firms mentioned his name, as seen in Appendix Figure A.1.

Fact 2: Party influence in domestic private and foreign-owned firms increased, though less than in SOEs. In Figure 2, we plot the proportion of domestic privately-owned firms that use key phrases. From 2011-2016, private firms steadily increased their propensity to mention Xi Jinping from 0% to 4.8%, while the proportion mentioning the other key phrases remained flat and close to zero. After 2017, private firms increased usage of all measures. By 2021, 17.5% of private firms mentioned Xi Jinping, 11.7% mentioned Party cells, and 7.0% were allocating funds to Party cells.

¹⁵Ping An Bank (2021): “Annual Report”.

¹⁶The phrase “Socialism with Chinese Characteristics for a New Era” was not coined until 2017, so its use is mechanically zero during this period.

Figure 3 is the analogous plot for foreign-owned firms. In 2016, foreign-owned firms exhibited extremely limited Party influence. Just 0.6% of these firms mentioned Xi Jinping, and other key phrases were not mentioned at all. By 2021, 10.5% of foreign firms mentioned Xi Jinping, 7.1% mentioned Party cells, and 4.6% allocated funds to Party cells. We plot SOE behavior in Appendix Figure A.2 for comparison.

Fact 3: Party influence was highest among utility, financial, and energy firms.

We examine influence measures by industry. Using the WIND industry codes, we categorize firms into ten groups: real estate, utilities, information technology, financials, health care, consumer staples, consumer discretionary, industrials, materials, and energy. Using 2021 data, we plot the share of listed firms in each sector that use key phrases with a different symbol for each key phrase. We use solid symbols for behavioral measures and hollow symbols for rhetorical measures.

Figure 4 shows that energy firms, utilities, and financial firms displayed the most Party influence. The state overwhelmingly dominates these industries, which have the highest share of state revenues to total revenues: 98.3%, 92.3% and 83.3%, respectively.¹⁷

Turning to private firms in Figure 5, overall influence levels are lower, and utilities and energy firms exhibit the most Party influence. Adoption of Party-endorsed governance rules remains below 10% for all sectors. Party influence is also low for foreign firms, as seen in Figure 6, though one out of two foreign utilities firms mentioned Xi Jinping by name.

Fact 4: Among domestic private and foreign-owned firms, Party influence was more rhetorical than behavioral. We use principal component analysis to collapse our six measures into rhetorical and behavioral components. The rhetorical variable is the first principal component of Xi Jinping and New Chinese Socialism.¹⁸ The behavioral variable is the first principal component of Party Cell, Party Cell Funding, Operations Rules, and

¹⁷The state share of the other industries are, in descending order: Industrials, 83.0%; Materials, 75.1%; Real Estate, 68.0%; Consumer Discretionary, 55.3%; Health Care, 50.8%; Consumer Staples, 37.9%; Information Technology, 37.8%. Calculated by taking the average share of state revenues to total revenues across 2011 - 2021 in CSMAR.

¹⁸We treat missing values as zeros for this exercise.

Personnel Rules. We plot these measures for all listed firms in Appendix Figure A.3. We replicate the plot for SOEs, domestic private, and foreign-owned firms in Appendix Figures A.4, A.5, and A.6.

Before 2017, rhetorical and behavioral influence were both low, though rhetorical influence was slightly more common. After 2017, behavioral influence grew sharply, a pattern driven by SOEs' behavior. Among private and foreign-owned firms, rhetorical influence was greater than behavioral influence in all time periods. This pattern is also visible in Figures 2 and 3. By 2021, personnel and governance rules were adopted by just 4.5% and 2.9% of private firms, respectively. For foreign-owned firms, just 2.1% adopted operations rules and 2.5% adopted personnel rules in 2021.

3.1 Correlates of Party Influence

In this subsection, we use two strategies to identify the firm characteristics most correlated with Party influence: Ordinary Least Squares (OLS) regressions and LASSO¹⁹ regressions. We include the following firm characteristics: revenue, profit, wages, number of employees, total liabilities, current liabilities, total assets, current assets, non-current assets, fixed assets, intangible assets, equity, payable tax, government subsidy, labor productivity (revenue/number of employees), capital productivity (revenue/fixed assets), retained earnings, and stock price. We also include indicators for state ownership, foreign ownership, listing on a foreign stock exchange, and whether the firm has previously won a government procurement contract. For ownership status, private firms are the omitted category. We standardize each continuous covariate by subtracting its mean and dividing it by its standard deviation for ease of interpretation. We also residualize (demean) the data by prefecture, year, year of listing, and industry fixed effects.

The LASSO procedure proceeds in two stages. In the first stage, we use a LASSO regression with a penalty determined by 10-fold cross-validation to minimize the mean squared

¹⁹Least absolute shrinkage and selection operator (Tibshirani, 1996).

error and choose the most relevant covariates. In the second stage, we estimate a multivariate OLS regression on the selected regressors (Belloni and Chernozhukov, 2013). When multiple covariates are highly collinear, the LASSO model generally selects one from the group.

Figure 7 visualizes the LASSO procedure for the first principal component of behavioral influence measures. In the left-hand panel, we report the coefficients from a multivariate OLS regression of the outcome variable on all firm characteristics. In the right-hand panel, we display coefficients from the OLS regression on selected regressors.

Behavioral influence is positively and significantly correlated with state ownership, wages, and receipt of a procurement contract. It negatively correlates with taxes, subsidies, and revenue divided by fixed assets.

Figure 8 visualizes the LASSO procedure for rhetorical influence in the same format as Figure 7. Because the model selected all variables, the Post-LASSO output is the same as the OLS.

Rhetorical influence is positively and significantly correlated with state ownership, firm equity, profit, wages, liabilities, receipt of a procurement contract, and intangible assets. Listing on a foreign exchange, retained earnings, revenues, liabilities, foreign ownership, and subsidies negatively correlate with rhetorical influence.

A few patterns emerge from these results. First, ownership status is a key predictor of influence. Relative to private firms, state-owned firms are more likely to exhibit behavioral and rhetorical influence, with post-LASSO coefficients of 0.828 and 0.413, respectively. Additionally, foreign ownership and foreign cross-listing status are negatively related to influence, especially rhetorical influence.

While government procurement contracts and direct subsidies are two ways the state may support firms, they are inversely related to influence. While prior receipt of a procurement contract positively correlates with influence, subsidies are negatively correlated.

4 Conclusion

In this project, we seek to measure and understand Party influence among firms in China. Our replicable and generalizable measures capture whether firms use key phrases in their public firm documents. We corroborate prior qualitative work ([The Economist, 2020](#); [Lardy, 2019](#)) and find a sharp economy-wide increase in Party influence starting 2017.

While the recent form of Party-state influence is most concentrated in state-owned firms, private firms do respond. For example, we document a 3.6-fold increase in the probability that private Chinese firms name Xi Jinping in their annual reports, increasing from 4.8% in 2016 to 17.5% in 2021. For comparison, we see no such pattern for Hu Jintao during his term. Foreign firms exhibited low overall levels of influence, though they also displayed an upward trend since 2017.

Our evidence suggests that the recent rise in Party influence among private and foreign-owned firms has been predominately rhetorical. This fact may assuage some investor concerns that the influence has already changed the de jure operations of these firms.

In ongoing research, we investigate potential determinants of Party influence, including economic shocks and political unrest. We also analyze how Party influence affects firm behavior and foreign investments within China.

Figure 1: Party Influence Measures Over Time - All Listed Firms

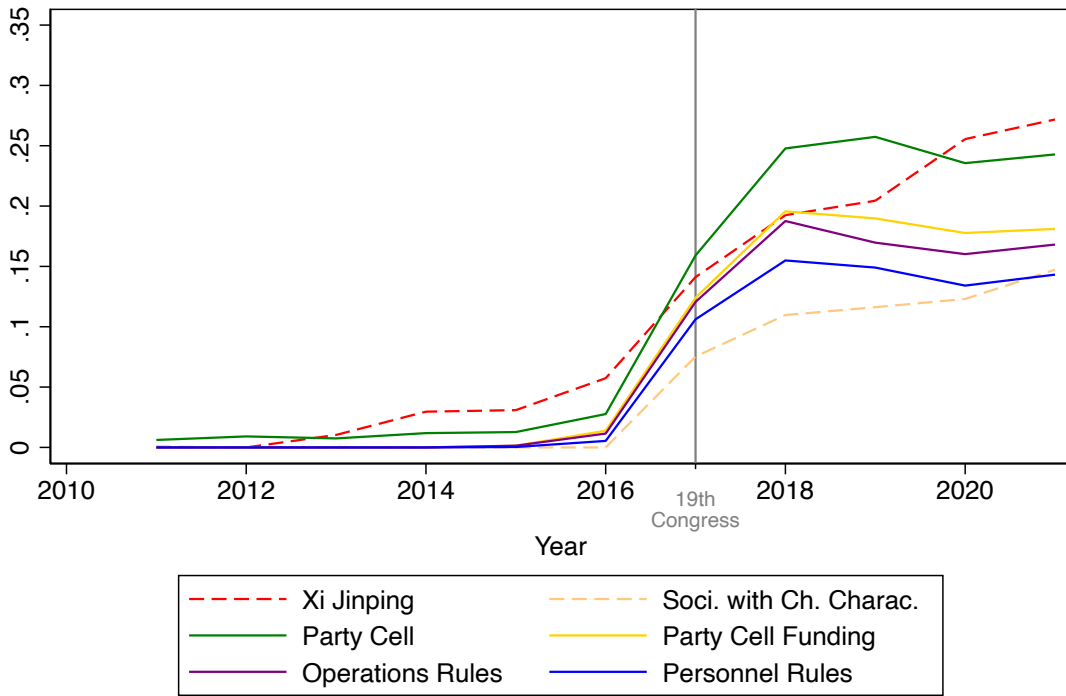


Figure 2: Party Influence Measures Over Time - Domestic Private Firms

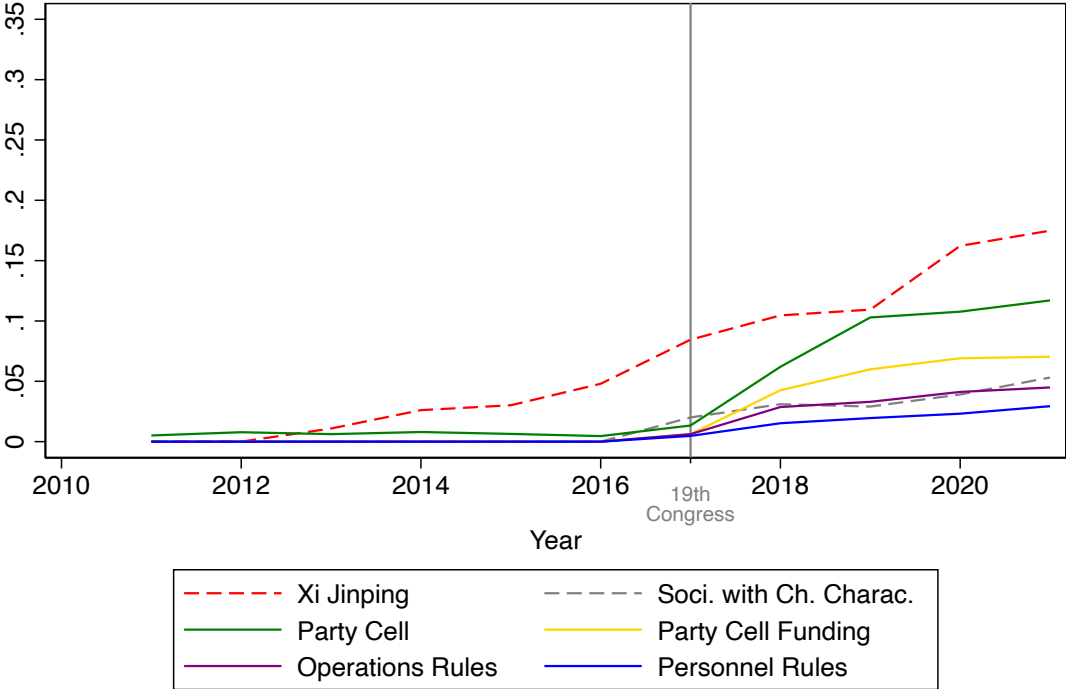


Figure 3: Party Influence Measures Over Time - Foreign-Owned Firms

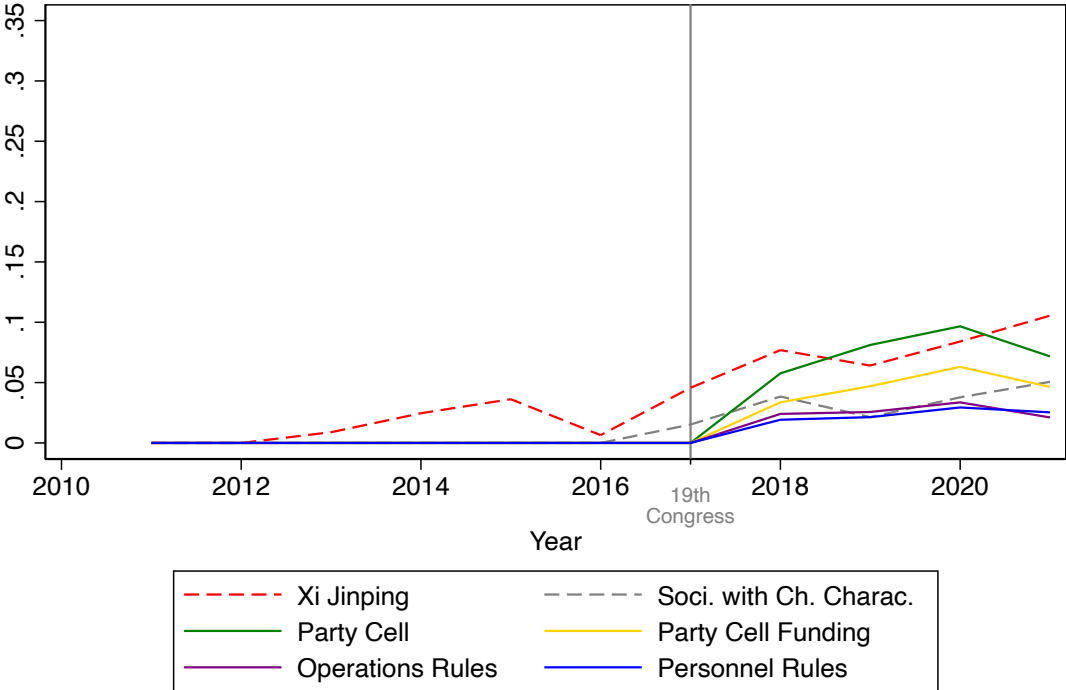


Figure 4: Influence Measures in 2021 by Sector - All Listed Firms

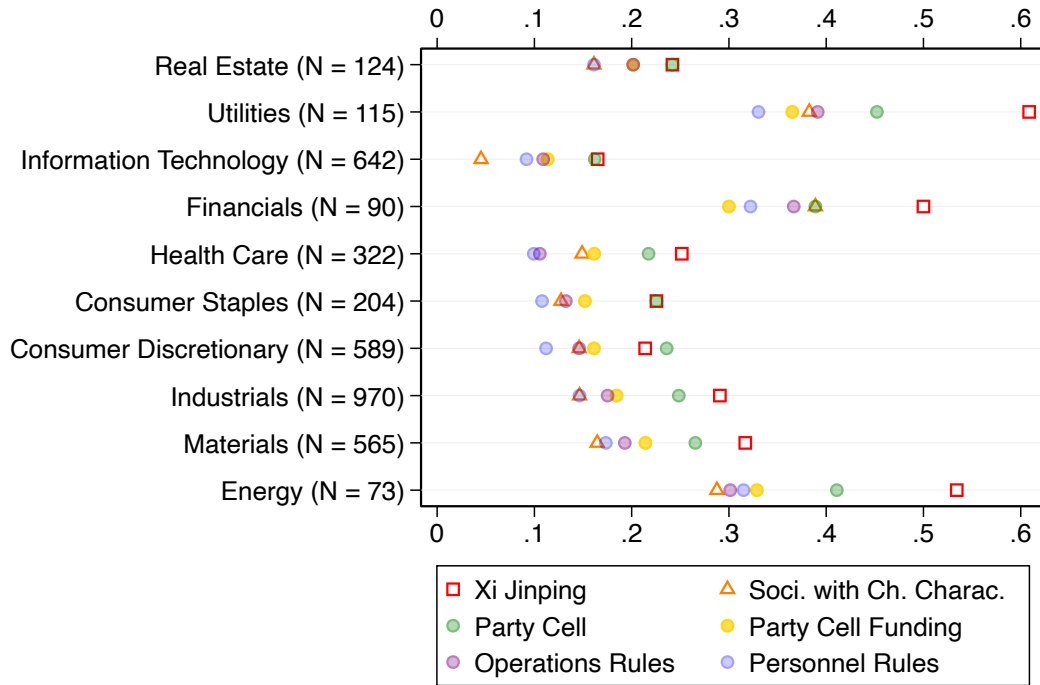


Figure 5: Influence Measures in 2021 by Sector - Domestic Private Firms

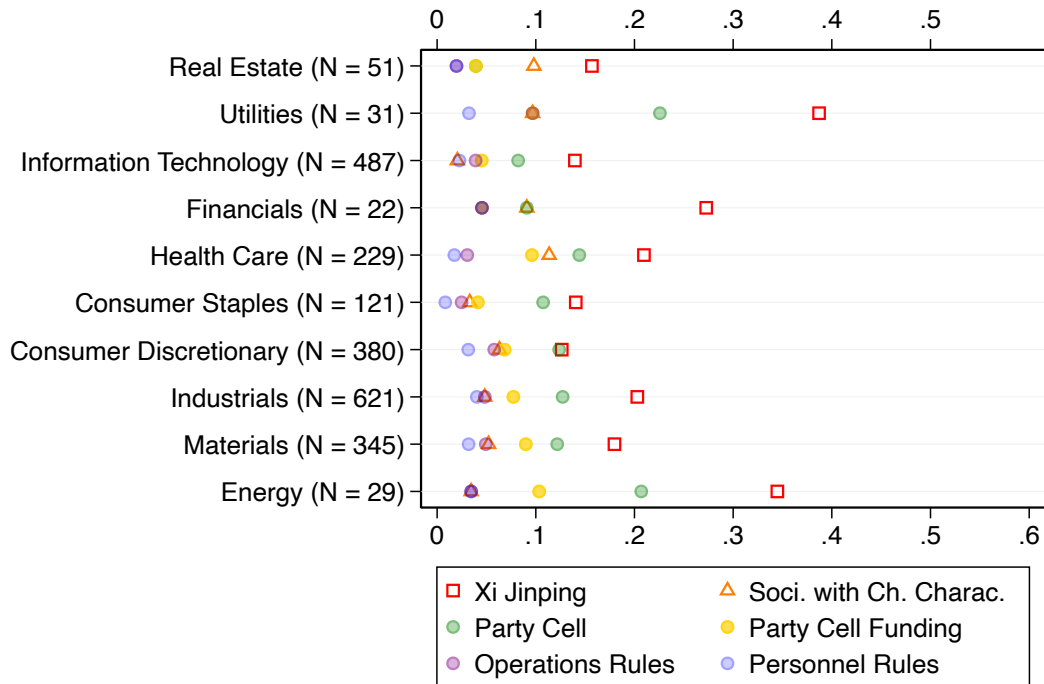


Figure 6: Influence Measures in 2021 by Sector - Foreign Firms

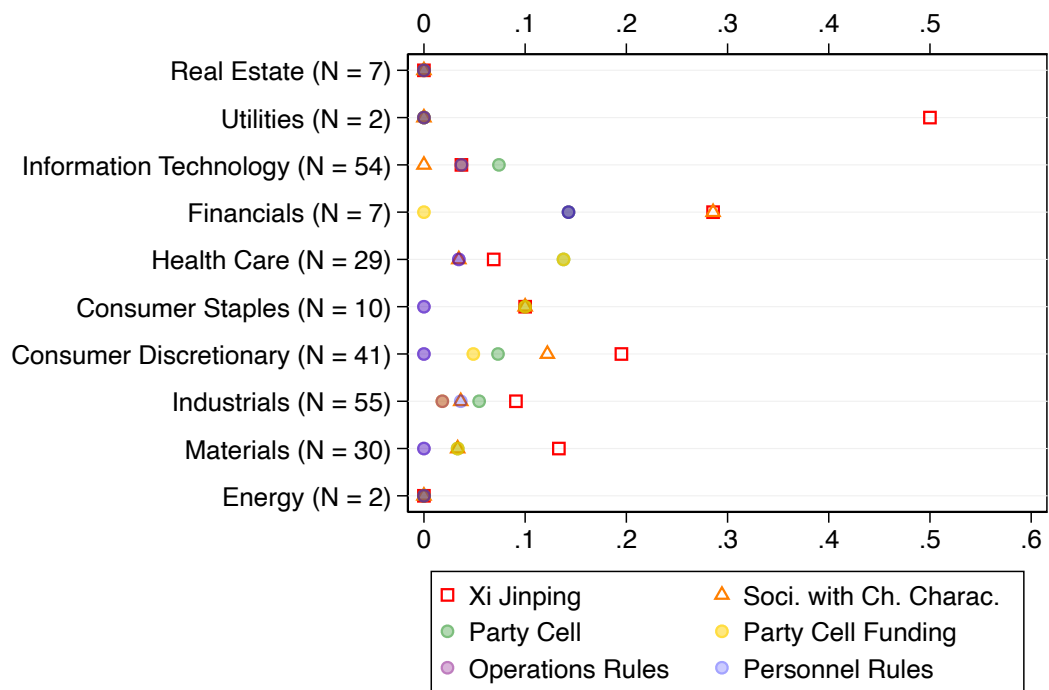


Figure 7: Correlates of Behavioral Influence Measures

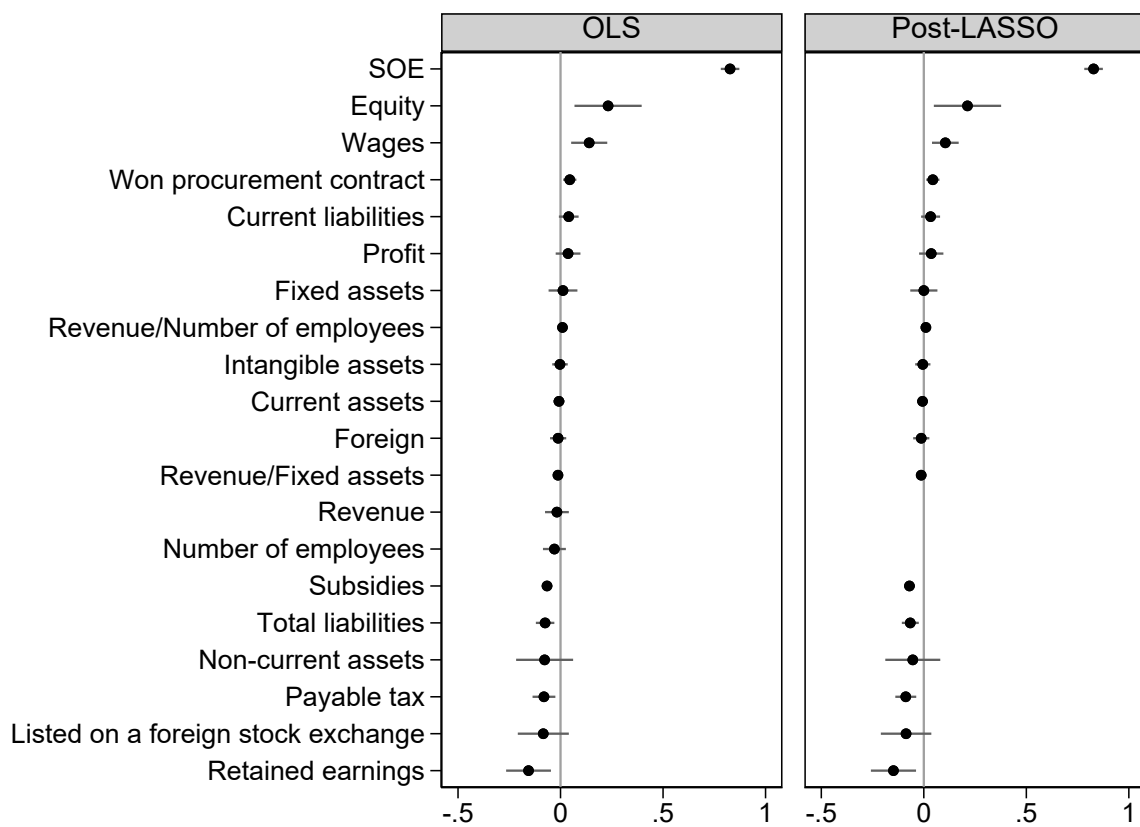


Figure 8: Correlates of Rhetorical Influence Measures

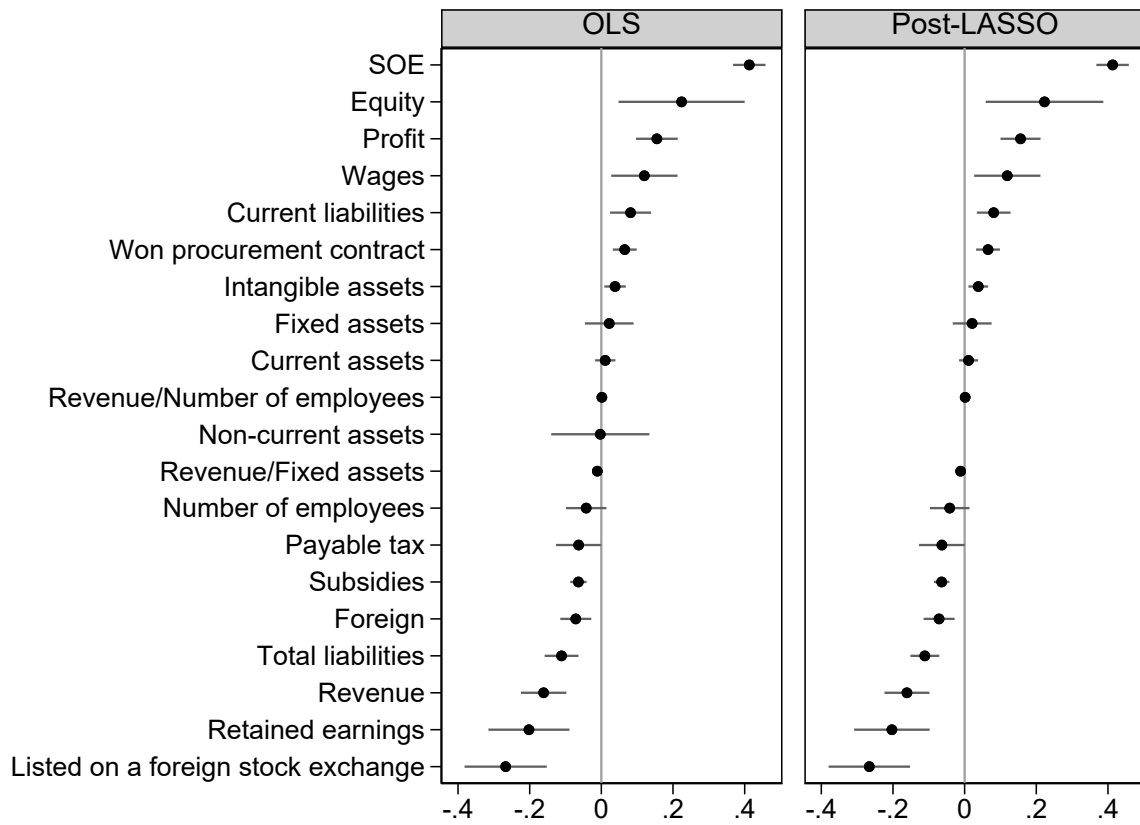


Table 1: Summary of Key Phrases

Variables	(1) N	(2) Mean	(3) SD	(6) Source
Panel A. All Firms				
<i>Indicator for:</i>				
Xi Jinping	33309	0.127	0.332	Annual Reports
Soci. with Chin. Char. for a New Era	33309	0.062	0.241	Annual Reports
Party Cell	33309	0.130	0.336	Charter Amendments
Party Cell Funding	33309	0.095	0.294	Charter Amendments
Operations Amendments	33309	0.088	0.284	Charter Amendments
Personnel Amendments	33309	0.075	0.263	Charter Amendments
Panel B. State-Owned Enterprises				
<i>Indicator for:</i>				
Xi Jinping	11856	0.211	0.408	Annual Reports
Soci. with Chin. Char. for a New Era	11856	0.138	0.345	Annual Reports
Party Cell	11856	0.277	0.447	Charter Amendments
Party Cell Funding	11856	0.217	0.412	Charter Amendments
Operations Amendments	11856	0.217	0.412	Charter Amendments
Personnel Amendments	11856	0.191	0.393	Charter Amendments
Panel C. Private Firms				
<i>Indicator for:</i>				
Xi Jinping	19602	0.083	0.275	Annual Reports
Soci. with Chin. Char. for a New Era	19602	0.020	0.140	Annual Reports
Party Cell	19602	0.050	0.217	Charter Amendments
Party Cell Funding	19602	0.029	0.168	Charter Amendments
Operations Amendments	19602	0.018	0.133	Charter Amendments
Personnel Amendments	19602	0.011	0.103	Charter Amendments
Panel D. Foreign-Owned Firms				
<i>Indicator for:</i>				
Xi Jinping	1851	0.051	0.221	Annual Reports
Soci. with Chin. Char. for a New Era	1851	0.020	0.140	Annual Reports
Party Cell	1851	0.038	0.192	Charter Amendments
Party Cell Funding	1851	0.024	0.152	Charter Amendments
Operations Amendments	1851	0.013	0.113	Charter Amendments
Personnel Amendments	1851	0.012	0.108	Charter Amendments

Notes: Observations are at the firm-year level. The data cover 2011-2021. Underlying documents are from the Wind Financial Terminal.

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APPENDIX

A Measurement of Party-state Influence

A.1 Key Phrases

Table A.1: List of Key Phrases

(1) English Phrase	(2) Chinese Phrase	(3) Match Criteria
<i>Annual Reports:</i>		
Xi Jinping	习近平	Exact
Socialism with Chinese Characteristics for a New Era	新时代中国特色社会主义思想	Exact
<i>Charter Amendments:</i>		
Party Cell	党组织, 党机构, 党的组织, 党委, 党支部, 党的工作机构,	Exact
Party Cell Funding	党组织的工作经费, 党组织工作经费	Exact
<i>Operations Rules</i>		
Research and discuss the company's reform, development, stability, major business management issues, and major issues involving the vital interests of employees	研究讨论公司改革发展稳定、重大经营管理事项和涉及职工切身利益的重大问题	Fuzzy
When the board of directors decides on major issues of the company, it should listen to the opinions of the company's party committee in advance	董事会决定公司重大问题, 应事先听取公司党委的意见	Fuzzy
Set the direction, manage the overall situation, and ensure implementation	把方向、管大局、保落实	Fuzzy
<i>Personnel Rules</i>		
The party committee deliberates on candidates nominated by the board of directors or the general manager and puts forward opinions and suggestions	党委对董事会或总经理提名的人选进行酝酿并提出意见建议	Fuzzy
Leadership and control over the selection and appointment of personnel	对选人用人工作的领导和把关	Fuzzy
Management standards, management procedures, management inspections, management recommendations, management supervision	管标准、管程序、管考察、管推荐、管监督	Fuzzy
Qualified members of the party committee can join the board of directors, board of supervisors, and managers through legal procedures, and qualified party members among the board of directors, board of supervisors, and managers can join the party committee in accordance with relevant regulations and procedures.	符合条件的党委成员可以通过法定程序进入董事会、监事会、经理层, 董事会、监事会、经理层中符合条件的党员可以依照有关规定和程序进入党委	Fuzzy
The chairman and the secretary of the party committee are held by one person	董事长、党委书记由一人担任	Fuzzy

Notes: The data cover 2011-2021. Underlying documents are from the Wind Financial Terminal.

A.2 Matching Procedure

Our final corpus contains 79,637 documents comprising 49,597 annual reports and 30,040 corporate charter amendments. We removed documents with identical titles to obtain the final corpus, keeping only the most recent version of each.²⁰

For the short key phrases, which are Xi Jinping, Socialism with Chinese Characteristics for a New Era, Party Cell, and Party Cell Funding, we search for exact matches in our corpus of text.

For longer key phrases, the personnel and operations rules, we use a fuzzy matching strategy to accommodate different expressions of the same content. The fuzzy match proceeds in several steps. We will refer to the key phrase as the "target" and the given document in which we are searching the "document".

First, we take each document and break it down into phrases of the length of the targeted phrase. Overlapping phrases are included. For example, for a document of 100 characters and a phrase length of 10 characters, this would result in 92 phrases.

Next, we compute a numerical match rate for each document phrase. We refer to the Party influence phrase as the "target". The match rate is expressed as:

$$Match\ Rate = \frac{2 \cdot \text{characters shared by document phrase and target}}{\text{length of target} + \text{length of document phrase}}$$

Next, for the best matched phrase, we also check if adding or removing up to 3 characters at the start or end of the phase improves the match quality, keeping the one with the highest matching rate.

Note that the length of the document phrase is always within $[\text{length of target} - 3, \text{length of target} + 3]$.

Finally, we take the maximum *Match Rate* value over all phrases in the document.

To illustrate, consider an example from a charter amendment made by AVIC Jonhon

²⁰There were 55,445 annual reports and 48,307 charter amendments before removing duplicates.

Optronic Technology Co., Ltd. in 2018. The target key phrase is a personnel rule: "董事长、党委书记由一人担任", which means "One person holds the chairman and the secretary of the Party committee". Our procedure identifies one document phrase as a potential match: "董事长、党委书记原则上由一人担任". The document passage is 16 characters long, whereas the original target phrase is 13 characters long. The target and the document phrase share 13 characters. Hence, this passage yields a matching rate of $\frac{2 \cdot 13}{13 + 16} = 0.897$.

For our binary measures, we treat a match rate of greater or equal to 0.7 as a mention of the key phrase. In the example above, since the match rate was 0.897, AVIC Jonhon Optronic Technology Co., Ltd. mentioned this personnel rule in its charter amendments in 2018. Our results are robust to using alternative cutoff values.

A.3 Examples of Key Phrases

Phrase	Year	Type	Example
Xi Jinping	2018	SOE	<p>公司深入贯彻落实习近平总书记关于扶贫开发系列重要讲话精神，将开展精准扶贫工作作为承担国有企业社会责任的重要组成部分。报告期公司下属湛江分公司对湛江市坡头区龙头镇石窝村开展帮扶慰问活动，对贫困家庭提供11万元资金资助。</p> <p>Translation: The company thoroughly commits to the spirit of General Secretary Xi Jinping’s series of important speeches on poverty alleviation and development, and treats the implementation of targeted poverty alleviation work as an important responsibility of state-owned enterprises. During the reporting period, Zhanjiang Branch, a subsidiary of the company, carried out assistance activities in Shiwo Village, Longtou Town, Potou District, Zhanjiang City, and provided 110,000 yuan of financial assistance to poor families.²¹</p>

²¹CITIC Offshore Helicopter (2018): “Annual Report”.

Xi Jinping	2018	Priv	<p>2018年度，党中央、国务院高度重视“互联网+医疗健康”工作。习近平总书记指出，要推进“互联网+教育”、“互联网+医疗”等，让百姓少跑腿、数据多跑路，不断提升公共服务均等化、普惠化、便捷化水平。</p> <p>Translation: In 2018, the Party Central Committee and the State Council attached great importance to the work of "Internet + medical and health". General Secretary Xi Jinping pointed out that it is necessary to promote "Internet + education" and "Internet + medical care", so that we can substitute digital labor for human effort, and continuously improve the inclusiveness and convenience of public services.²²</p>
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²²Vanfund Urban Investment and Dev Co Ltd (2018): “Annual Report”.

<p>New Socialism with Chinese Characteristics</p>	<p>2020</p>	<p>SOE</p>	<p>2020年，是决战脱贫攻坚、决胜全面小康的收官之年。深粮控股继续以习近平新时代中国特色社会主义思想为指导，开展对口帮扶河源市龙川县义都镇桂林村精准扶贫工作，按照广东省委、省政府《关于新时期精准扶贫精准脱贫三年攻坚的实施意见》（粤发〔2016〕13号）文件精神，桂林村精准扶贫的整体目标为：一是巩固扶贫成果，拒绝因教返贫、因病返贫；二是走访并解决贫困户实际困难；三是进一步强化产业帮扶；四是完善基础设施建设，确保新建村民服务中心的验收及办公用品购置。</p> <p>Translation: 2020 is the year of victory in the battle against poverty and of achieving a holistically well-off society. Shenliang Holdings continues to follow the guidance of Xi Jinping’s socialism with Chinese characteristics in the new era, and has begun targeted poverty alleviation work in Guilin Village, Yidu Town, Longchuan County, Heyuan City. According to "Regarding poverty alleviation in three years in the new era" (Yuefa [2016] No. 13), the steps of targeted poverty alleviation in Guilin Village are: first, to ensure that poverty alleviation is sustainable and will not be reversed by illness; second, to visit and solve the actual problems of poor households; third, to further strengthen industry assistance; the fourth is to improve the infrastructural development to ensure that the newly built village service center will be functional. ²³</p>
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²³Shenzhen Cereals Hldgs Co (2020): “Annual Report”.

<p>New Socialism with Chinese Characteristics</p>	<p>2021</p>	<p>Priv</p>	<p>2022年，我国将迎来党的二十大召开。我国将以习近平新时代中国特色社会主义思想为指导，全面贯彻落实党的十九大和十九届历次全会精神，弘扬伟大建党精神，坚持稳中求进工作总基调，完整、准确、全面贯彻新发展理念，加快构建新发展格局，全面深化改革开放，坚持创新驱动发展，推动高质量发展，坚持以供给侧结构性改革为主线，统筹疫情防控和经济社会发展，统筹发展和安全，继续做好“六稳”、“六保”工作，持续改善民生，着力稳定宏观经济大盘，保持经济运行在合理区间，保持社会大局稳定，迎接党的二十大胜利召开。</p> <p>Example translation: In 2022, the country will usher in the 20th National Congress of the Communist Party of China. Guided by Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, the country will fully adhere to the spirit of the 19th National Congress of the Communist Party of China and the previous plenary sessions of the 19th National Congress, continue Party-building efforts, and seek progress while maintaining stability. It will fully, accurately and comprehensively implement new development ideas, accelerate the creation of a new development pattern, comprehensively deepen reforms for an open economy, adhere to innovation-driven development, promote high-quality development, prioritize supply-side structural reforms, charter epidemic prevention and control and economic and social development, and ensure development and security. It will</p>
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			continue fulfilling the "six stability" and "six guarantees": continuing to improve livelihoods, stabilizing the macroeconomic market, keeping the economy operating within a reasonable range, and maintaining overall social stability, ushering in a successful 20th National Congress of the Communist Party of China. ²⁴
Party cell	2021	SOE	<p>根据《党章》的规定，公司设立中国共产党的组织，在公司发挥领导核心和政治核心作用，把方向、管大局、保落实。公司建立党的工作机构，配备足够数量的党务工作人员，保障党组织的工作经费。</p> <p>Translation: Following the provisions of the "Party Constitution", the company establishes a cell of the Communist Party of China, which will play a central leadership and political role to set the corporate direction, manage the company, and ensure operations. This Party cell will be equipped with sufficient manpower as well as guaranteed funding.²⁵</p>

²⁴Ping An Bank (2021): "Annual Report".

²⁵Shenzhen Kaifa Technology Co., Ltd. (2021): "Firm Charter".

Party cell	2020	Priv	<p>根据《中国共产党章程》，设立中国共产党的组织，党委发挥领导作用，把方向、管大局、保落实。公司建立党的工作机构，配备足够数量的党务工作人员，保障党组织的工作经费。党组织工作和自身建设等，按中国共产党章程等有关规定办理。</p> <p>Translation: Following the provisions of the "Party Constitution", the company establishes a cell of the Communist Party of China, which will play a central leadership and political role to set the corporate direction, manage the company, and ensure operations. This Party cell will be equipped with sufficient manpower as well as guaranteed funding. The Party cell will be managed in accordance with the Party Constitution.²⁶</p>
Party cell Funding	2021	SOE	<p>根据《党章》的规定，公司设立中国共产党的组织，在公司发挥领导核心和政治核心作用，把方向、管大局、保落实。公司建立党的工作机构，配备足够数量的党务工作人员，保障党组织的工作经费。</p> <p>Translation: Following the provisions of the "Party Constitution", the company establishes a cell of the Communist Party of China, which will play a central leadership and political role to set the corporate direction, manage the company, and ensure operations. This Party cell will be equipped with sufficient manpower as well as guaranteed funding.²⁷</p>

²⁶China Scholars Group (2020): "Firm Charter".

²⁷Shenzhen Kaifa Technology Co., Ltd (2021): "Firm Charter".

Party cell Funding	2020	Priv	<p>根据《中国共产党章程》，设立中国共产党的组织，党委发挥领导作用，把方向、管大局、保落实。公司建立党的工作机构，配备足够数量的党务工作人员，保障党组织的工作经费。党组织工作和自身建设等，按中国共产党章程等有关规定办理。</p> <p>Translation: Following the provisions of the "Party Constitution", the company establishes a cell of the Communist Party of China, which will play a central leadership and political role to set the corporate direction, manage the company, and ensure operations. This Party cell will be equipped with sufficient manpower as well as guaranteed funding. The Party cell will be managed in accordance with the Party Constitution.²⁸</p>
Operational Rules	2021	SOE	<p>进入董事会、经理层尤其是任董事长或总经理的党委成员，在议案正式提交董事会或总经理办公会前，就党委的有关意见和建议与董事会、经理层其他成员进行充分沟通。(董事会决定公司重大问题，应事先听取公司党委的意见)</p> <p>Translation: Members of the board of directors and management, especially the Party cell members who serve as the chairman or general manager, will fully communicate with other members of the board of directors and management the opinions and suggestions of the Party committee prior to board meetings.²⁹</p>

²⁸China Scholars Group (2020): "Firm Charter".

²⁹Tianjian Group (2021): "Firm Charter".

Operational Rules	2018	Priv	<p>董事会决定公司重大问题时，应当事先听取公司党委的意见。</p> <p>Translation: The board of directors shall seek the opinions of the company’s Party cell before making any major decisions involving the company.³⁰</p>
Operational Rules	2018	SOE	<p>公司党委对董事会或总经理提名的人选进行酝酿并提出意见建议，或者向董事会、总经理推荐提名人选；会同董事会对拟任人选进行考察，集体研究并提出意见建议。(党委对董事会或总经理提名的人选进行酝酿并提出意见建议)</p> <p>Translation: When the company’s Party cell has any recommendations or opinions on candidates, or nominates any candidates for consideration, the board of directors shall conduct research on nominees and provide their opinions and suggestions.³¹</p>
Operational Rules	2019	Priv	<p>落实党管干部、党管人才原则，发挥党委在公司选人用人中的领导和把关作用。(党委对董事会或总经理提名的人选进行酝酿并提出意见建议)</p> <p>Translation: As, in principle, one of the Party cell’s roles is to manage talents in the company, the Party cell shall lead the company’s selection and appointment of personnel.³²</p>

³⁰Do-Fluoride New Materials (2018): “Firm Charter”.

³¹China National Accord (2018): “Firm Charter”.

³²Western Venture (2019): “Firm Charter”.

Figure A.1: Hu Jintao Mentions Over Time - All Listed Firms

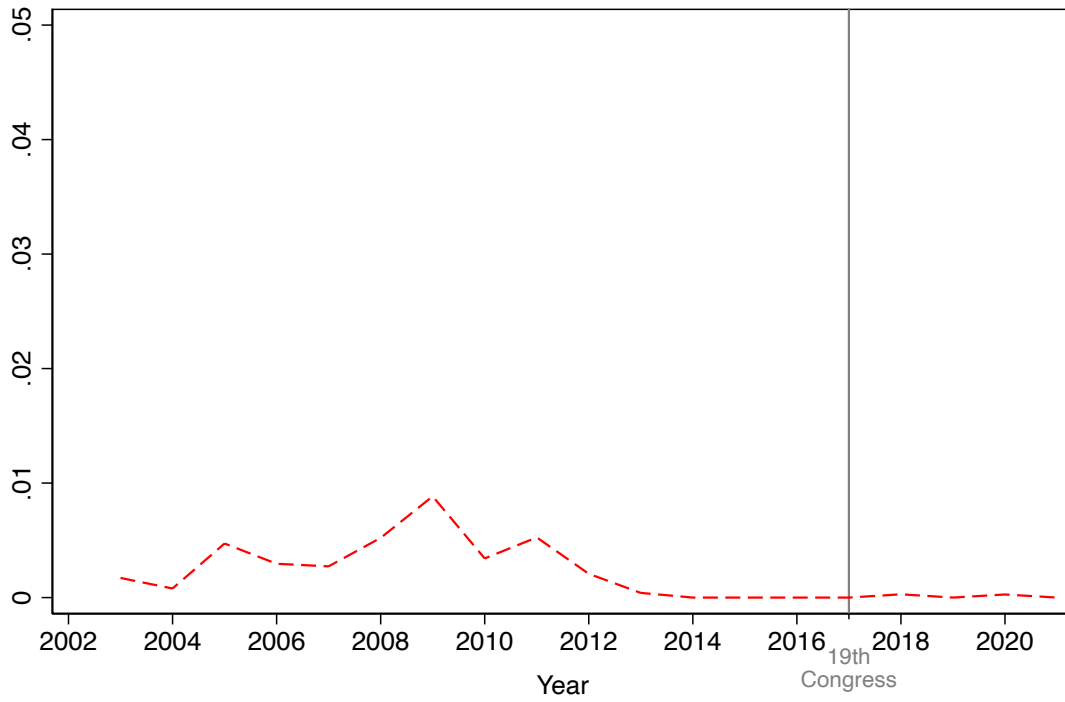


Figure A.2: Party Influence Measures Over Time - State-Owned Firms

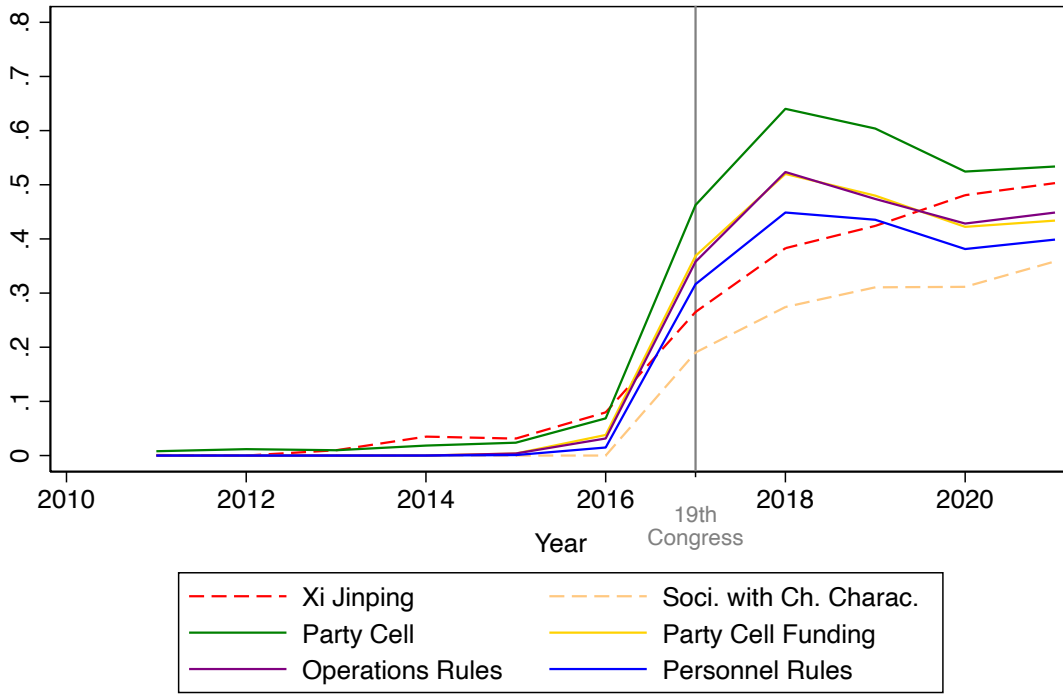


Figure A.3: PCA Measures Over Time - All Listed Firms

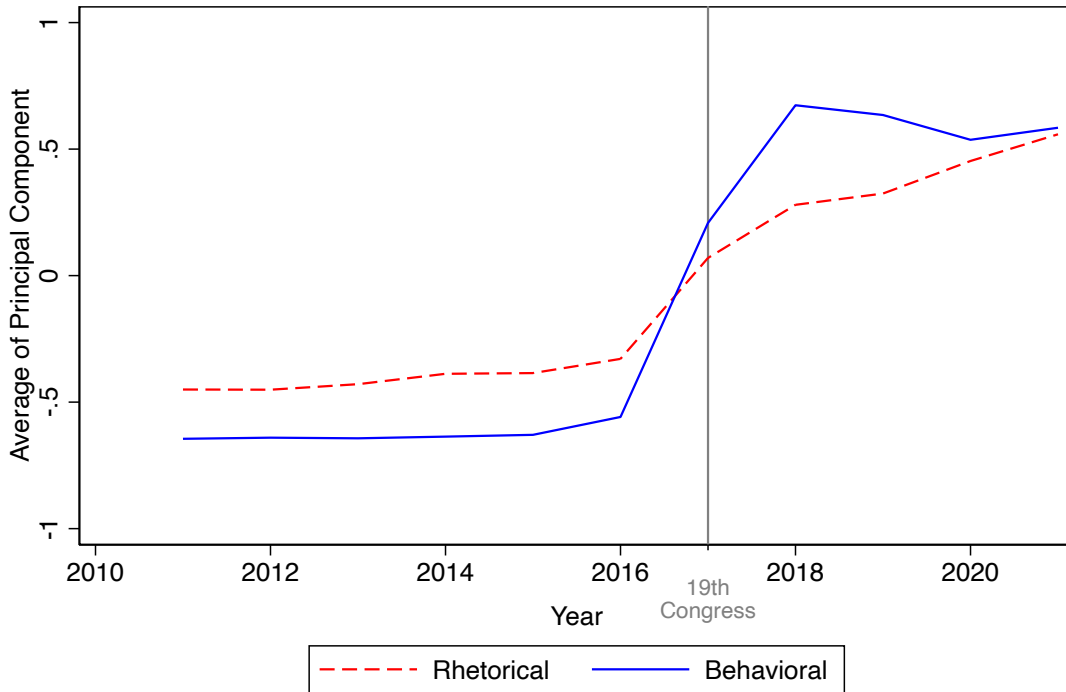


Figure A.4: PCA Measures Over Time - State-Owned Firms

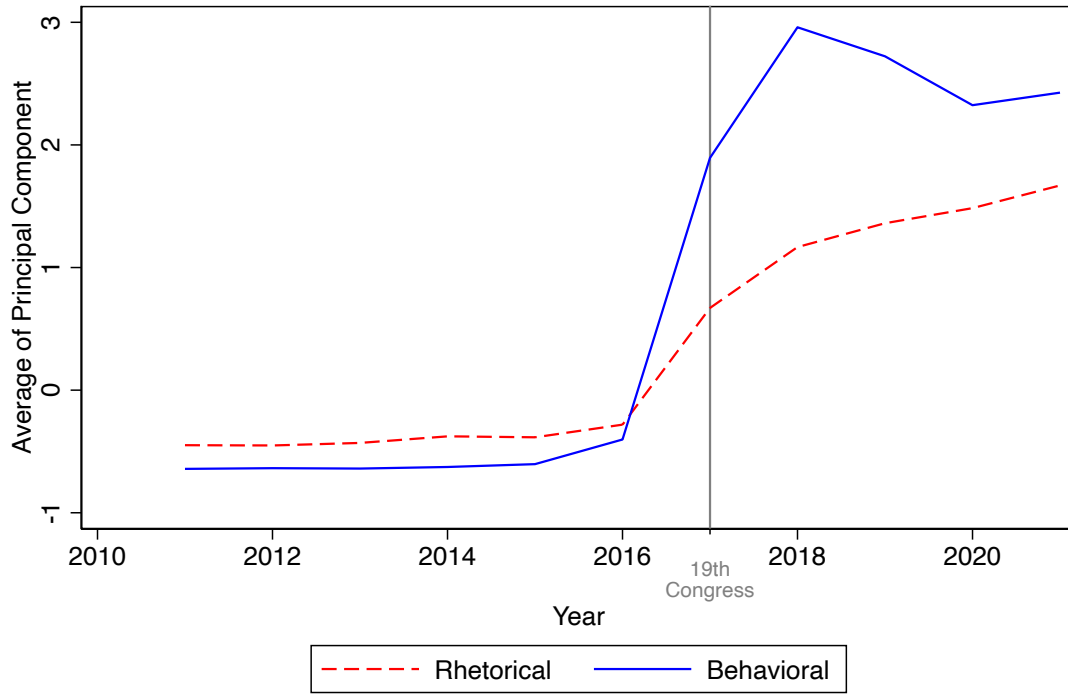


Figure A.5: PCA Measures Over Time - Domestic Private Firms

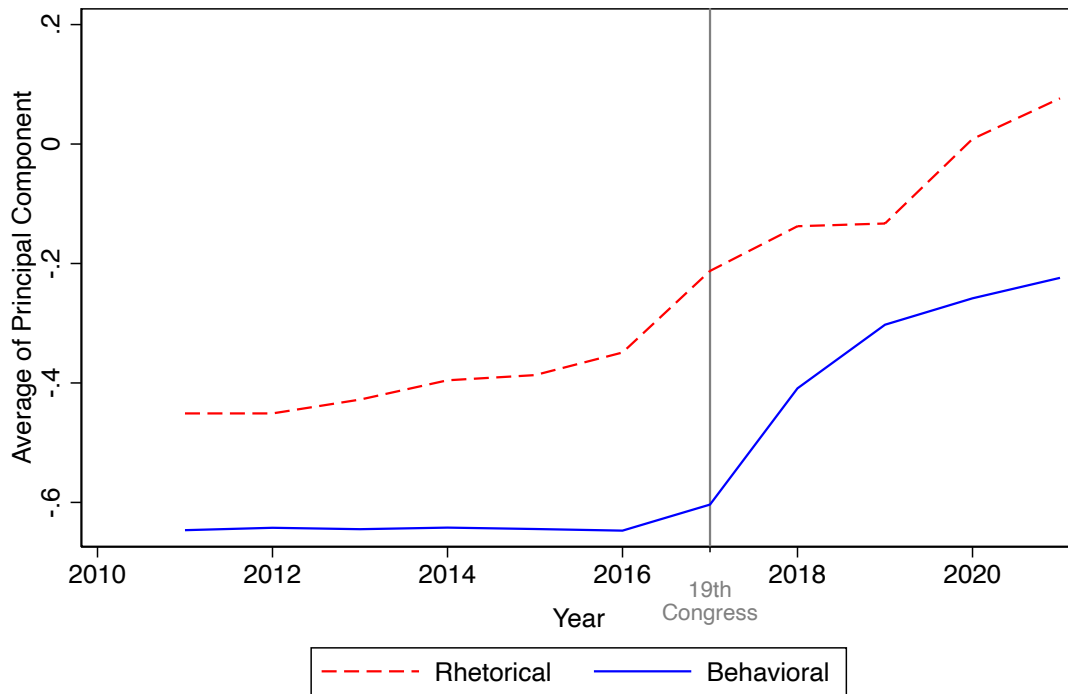


Figure A.6: PCA Measures Over Time - Foreign-Owned Firms

