

FIIA 5/2010

COMMENT

Matti Nojonen
Programme Director at the Finnish Institute of
International Affairs

A new opportunity for Mr Kallasvuo > Acquiring a position in a rising Chinese company?

China is advertising for overseas candidates for managerial-level positions in some of its biggest state-owned enterprises (SOEs). However, this apparent opening up of one of the most closed parts of the Chinese economy has not diminished the non-transparent role of the Chinese Communist Party in the rapidly globalizing SOEs.

In early September, Beijing announced that more than a dozen of its biggest state-owned enterprises (SOEs), such as the China State Construction Engineering Corporation, the State Nuclear Power Technology Corporation and China Travel Services (Hong Kong), are to hire new managers from overseas. This is a surprising opening of Beijing, despite the fact that China has become a global economic superpower, with 46 companies making it onto the Fortune Global 500 list to date, 11 more than in 2008. So wouldn't this be the perfect opportunity for Mr Kallasvuo, the recently sacked CEO of Nokia, to make the move to a rising Chinese company?

Before Mr Kallasvuo gets too enthusiastic about the job ad, however, we need to examine the decision-making processes and governing forces behind the rapidly globalizing SOEs in China a little more closely. We will begin our autopsy by probing the Chinese system through none other than the job advertisement in question.

The advertisement was placed by two organizations: the Central Organization Department of the Chinese Communist Party and the State-Owned Assets Supervision and Administration Commission (SASAC).

The SASAC was established in 2003 to govern and restructure the underperforming Chinese state enterprises. It is the main organ of the State Council, overseeing the operations of China's 129 biggest SOEs, also dubbed the 'backbone of the Chinese economy' by Beijing. These companies are enormous and have just under 20,000 subsidiaries and sub-subsidiaries across the country. According to Chinese law, SASAC also appoints the top management and executives of these SOEs.

However, an investigation into the other organization behind the job ad, the Central Organizational Department of the Chinese Communist Party, takes us to the threshold of a Kafkaesque world. This Organizational Department's homepage (<http://www.12380.gov.cn/>) is only available in Chinese, even though the organization posted the job ad in English. This could be interpreted as an oversight, but a quick read through of the homepage reveals the secretive nature of the organization. There is no information on how far the tentacles of this organization extend across China, nor on its size. It does not provide any data on the personnel, nor does it reveal who its director is (his name is Li Yuanchao). There is no mention of the organization's strategy or mis-

sion either. The homepage is devoid of items that are usually mentioned on any governmental or business organization's homepage, even in China.

Mr Kallasvuo would be forgiven for thinking that the website is still under construction, so his next step might be to dial the only number (010-12380) provided. However, the call would be taken by an answering machine, where you can register complaints about misdemeanours committed by Party cadres or complaints about violations in Party cadre appointments that are taking place above the county level.

In fact, the Organizational Department is one of the most powerful and secretive organs of the Party. Its main task is to select and appoint individuals to positions both within the Party and the state. It controls millions of personnel appointments across the country, maintains personal dossiers and compiles confidential reports on potential future leaders recruited to the most influential political and economic positions, including appointments of Party secretaries and managerial-level personnel in the major SOEs. This is the channel through which the Party controls and influences the strategic-level decisions in big SOEs.

Address

Finnish Institute of
International Affairs

Kruunuvuorenkatu 4
00160 Helsinki

Mailing address

Finnish Institute of
International Affairs

PL 400
00161 Helsinki

Telephone

+358 (0)206 111 700

Fax

+358 (0)206 111 799

www.upi-fiia.fi

The Finnish Institute of International Affairs is an independent research institute that produces high-level research to support political decision-making and public debate both nationally and internationally.

The Institute undertakes quality control in editing publications but the responsibility for the views expressed ultimately rests with the author(s).

Keeping track of the management structures of big SOEs is no trivial exercise. The large SOEs are becoming increasingly global—about 9 % of Fortune 500 companies are Chinese SOEs—and these companies are extending their networks across the globe in much the same way that their foreign counterparts shaped their supranational, global existence.

As long as the party has its tentacles inside the SOEs, the international community will find it increasingly difficult to interpret and identify Chinese foreign policy actors, actions and voices. Furthermore, while the party has its tentacles in the big SOEs, it will certainly constrain SOE investments in certain sectors and regions.

However, it may be that the whole exercise of opening up managerial positions for overseas candidates is a strategy by Beijing to deflect future foreign criticism of the close relationship between the Party and the SOEs' management. If this is the case, then it would have been better to omit the Central Organizational Department of the Chinese Communist Party from the advertisement in the first place. As it is still there, it can only be interpreted as a sign of the Party's power to handpick even overseas managers for the strategically

important SOEs. Hence, the question remains: in what other ways will the Organizational Department wield its power over the 'national champions' of China? From a managerial and corporate governance point of view, what would candidates such as Mr Kallasvuo feel like working as CEOs under the conditioning forces of the Party?

If Mr Kallasvuo decides that he is willing to work under the shadow of the Party secretary of the SOE, he would come up against the first obstacle while trying to submit his application to the Organizational Department. There would be no point in him taking out his new Nokia C3 touchscreen phone to look up the Organizational Department's street address on their website, as it is nowhere to be found. This is a measure of the 'capitalism' in the world's second-biggest economy—the Organizational Department that selects the top 5,000 most powerful and influential people for political and economic positions in the country does not even provide a street address on its homepage. Equally characteristic of this mysterious organization is the fact that its actual office complex in Beijing does not display any sign or logo whatsoever on its front door to indicate its presence.