

# “Informal Regulation” of Private Internet Firms in China Through Party-Building: An Institutionalist Political Economy Perspective

**Aifang Ma**, Peking University

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## Abstract

Although existing literature has extensively discussed formal regulation of private internet firms in China, informal regulation has remained comparatively under-researched. This article seeks to address this gap. Adopting an institutionalist political economy perspective, I investigate one specific form of informal regulation in China: party-building within private internet firms. Here, informal regulation in China allows the Chinese Communist Party to exert influence over private internet firms through less direct and overt ways than formal regulation. Party-building helps improve the position of private internet firms vis-à-vis party institutions by allowing greater proximity to policymakers and political deliberative institutions. However, party institutions are better positioned than internet firms to turn party-building to their favour, for they ultimately initiate, modify, and terminate this process.

Adopting an institutionalist political economy framework, this article examines the negotiations of power between the Chinese Communist Party (CCP) and private internet firms within the informal regulatory mechanisms of party-building. According to Chinese Companies Law, all private firms are registered with local market regulators, including at county, municipal and provincial levels. The examples of party-building analyzed in this article mostly unfold locally. Local party institutions cannot directly interact with private firms through formal regulatory channels. However, these institutions have managed to establish channels of influence by pressuring firms to create party cells. Internet firms have an ambiguous attitude toward party-building. On the one hand, they actively participate in the formation of party cells when this helps mitigate the pressure of complying with formal regulation; on the other, they demonstrate scant enthusiasm when such participation generates more inconveniences than benefits.

In 1994, China officially joined the World Wide Web. Since then, Chinese internet regulation has been co-shaped by the interplay between the priorities of the central party leadership and the internet’s multidimensional importance nationally. The internet is simultaneously a symbol of the Chinese economic success, a potential threat to the CCP’s monopolistic control over state ideology,

and a tool of mass surveillance. Since the internet represents both opportunities and threats for the CCP, the party leadership's approach to internet regulation has not been exclusively control-oriented in the past three decades. The party leadership has simultaneously endeavored to unleash the internet's potential to drive Chinese economic growth, innovate the business models of the digital economy, and spearhead internet-based technological innovation (Zhao, 2008). Consequently, Chinese internet regulation has both restrictive and facilitative functions. Whether one prevails over the other depends on the institutional priorities of the party leadership and their responses to evolving contextual priorities over different epochs.

Both party institutions and state institutions have the capacity to shape internet regulation, although the available channels and mechanisms are somewhat different. Before discussing their respective priorities, a point of clarification is needed. This article uses the "Party" and the "State" as two generic terms to denote respectively party institutions and state institutions, irrespective of their administrative level. The "Party" and the "State" embody, respectively, the political and the technocratic leadership in China. Under one-party rule in China, the Party coexists with the State, but ultimately rules over it, implying the domination of political leadership over technocratic leadership.

Central state institutions include ministries and ministerial-level administrations (e.g., the State Administration for Market Regulation [SAMR]). Central state institutions report to the State Council, the highest state institution in China. The State Council implements the decisions of the Central Committee of the CCP (CCCCP), the highest party institution in China. Central party institutions do not report to the State Council, but to the CCCCCP. China currently has 16 central party institutions, including the Central Department of Propaganda (CDP), the Central Department of Organization (CDO) and Cyberspace Administration of China (CAC) [1]. In principle, central party institutions enjoy the same administrative rank as ministries. However, since they directly report to the central Party leadership without going through the State Council, their institutional prestige is higher than central state institutions.

As an illustration, both the State Council Information Office (SCIO) and the CAC, the two content regulators in China before and after 2014, are ministerial institutions. However, the CAC *de facto* has higher authority than the SCIO, because it directly reports to the CCCCCP. This has allowed the CAC to be a more efficient content regulator than the SCIO, because the CAC can more easily secure the cooperation of ministries than the SCIO does (Creemers, 2015). Each central party institution has local outposts ranging from the county to the provincial level, and local party institutions report to the local party committee. For instance, Shenzhen cyberspace administration is the local outpost of the CAC at the municipal level. It reports to the municipal party committee of Shenzhen.

At both central and local levels, the primary function of state institutions is to address public regulatory issues. The strategic priority of party institutions is primarily to secure the CCP's long-term political power. The CDP defends the ideological baselines of the CCP; the CDO selects and promotes party cadres; the CAC ensures that online speeches do not denigrate the CCP's image or legitimacy. It is the same for objectives concerning the regulation of private internet firms: while state institutions try to promote the internet's potential to boost economic growth, party institutions are more concerned to try to prevent online speeches from endangering national security in general and the CCP's reign in particular (Negro, 2017). Since Party institutions ultimately take priority over state institutions in China, the aforementioned divergence of priorities between party and state institutions is, if not explicitly, at least implicitly agreed upon by the party leadership. The evolution of the regulatory priorities I have outlined reflect the *de facto* evolution in the party leadership's priorities.

Under Jiang Zemin, President of China (1992-2002), state institutions worked on informationalizing the Chinese economy and realizing economic catch-up with advanced economies (Negro, 2017). The restrictive regulation of internet firms, including the creation of party cells, was not the priority of the Chinese government. From the mid-1990s to the mid-2000s, most internet firms, including the BAT (Baidu, Alibaba, and Tencent), were at the burgeoning stage of their development. They became national champions in the 2010s. Given their limited capacities to spread online content, internet firms could hardly challenge the Party's monopoly in ideological control. Instead, since internet firms contributed to the economic agenda of informatization, they benefitted from a largely supportive policy environment (Negro, 2017).

Under Hu Jintao, President of China (2002-2012), the central Party leadership held an ambiguous attitude toward internet firms. On one hand, given the internet's increasingly important role in influencing public opinion, party institutions came to the fore (Miao et al., 2021: 2006). In that decade, the internet facilitated several high-profile online mass incidents (e.g., the Deng Yujiao case in 2009), triggering tighter internet control than under Jiang Zemin (Yang, 2009). The rollout of several restrictive regulations (e.g., of online comments and blogs, real name registration policy) significantly constrained the capacities of internet firms to guide public opinion. On the other hand, the Chinese government continued to push forward the informatization of the Chinese economy. Its dependence on private internet firms for achieving this objective accounts for the supportive economic and fiscal policies under Hu (e.g., weak antitrust regulation of internet firms, see Ma, 2024b). Thus, "bifurcated regulation" captures the Chinese government's ambiguous attitude toward internet firms: strict regulation on political issues, and lax regulation on economic ones (Ma, 2024a: 52).

Under Xi Jinping (since 2012), both the economic and the political regulation of internet firms have become restrictive (Negro, 2017; Ma, 2024a). Given the increasing economic power of private internet firms and their mastery of large quantities of data on Chinese citizens, they have been perceived as a threat to the Chinese government's authority, rather than the symbol of Chinese economic success. From a political perspective, in 2014, the CAC replaced the SCIO to become the regulator-in-chief of Chinese cyberspace (Bandurski, 2017). This new institutional layout helps coordinate the content regulation of different institutions more efficiently. At the same time, power relations between state and party institutions involved in internet regulation have changed in two ways under Xi Jinping. First, party institutions have taken on greater importance than state institutions. New regulatory issues (e.g., data protection and the implications of blockchain) that emerged with the unfolding of the digital economy have been largely integrated into the CAC's regulatory turf. Second, instead of continuing to manoeuvre on the backstage, party institutions have moved to the frontstage, exercising their regulatory power more explicitly (Bandurski, 2017).

From an institutional perspective, the dual changes introduced above are attributable to a different configuration of the interplay between stakeholders' interests and the conditions facing them (Zhao, 2008). Under Xi Jinping, China has largely achieved the economic catch-up with advanced economies (in terms of the overall GDP). In 2024, Chinese GDP reached \$17,660 billion, second only to the United States (\$27,360 billion). It largely exceeds Germany (\$4,460 billion) and Japan (\$4,210 billion), the third and the fourth largest economies in the world, respectively (Xu, 2024). However, the need to stem the challenges posed by digital communication methods heightened party institutions' vigilance toward internet firms. The central party leadership did not attach much importance to party-building in private internet firms before the mid-2000s; state institutions led the dance in informatizing the national economy. This changed after the mid-2000s (Xue, 2018).

This article is inspired by the literature that bridges institutionalist analysis and communication studies (Innis, 1951; Babe, 1995; Winseck, 2016; Thompson, 2017, 2019). Specifically, it adopts an institutionalist political economy approach to analyse the extent to which the informal but powerful regulatory mechanism of party-building has led to shifts in Party-firm power relations. Such an approach emphasizes that power and interests do not stem from fixed structures in a deterministic way. Instead, it “recognizes the evolving, contextual interplay of institutional interests and negotiations of power” (Thompson, 2019: 91). Institutional contexts and the interplay of interests co-influence regulator-firm power relations (Thompson, 2017).

This institutionalist perspective is helpful in analysing how party institutions exert power over private internet firms through one form of informal regulation: party-building. The central question addressed in this article concerns the extent to which party-building in private internet firms broadens the CCP’s power reach. Power is central to media production, consumption, and regulation (Mansell, 2004). As Hong and Xu suggest, power can be understood as the “capacity of projecting both coercive and consensual power” (2019: 6). However, from an institutionalist perspective the capacity to exert power is always contextual and dependent on specific institutional configurations—in this case, the evolving relations between Party and state agencies in relation to internet firms.

My research centres upon the creation of party cells in China’s top 100 internet firms as of 2020. This ranking was co-released by the Internet Society of China (a semi-official industrial association) and the Ministry of Industry and Information Technology (MIIT). In this context, party-building has become a crucial dimension in the negotiation of Party-internet firm power relations. Party-building extends the power of the Party by providing it with nimbler methods than formal regulation to coerce firms and seek their cooperation (not necessarily in rule-abiding manners). In other words, through informal regulation, local party institutions can directly enter into relations with regulated firms, without going through local state institutions. It also allows firms with party cells to obtain benefits unavailable to the firms without party cells. Nevertheless, as will be analyzed later, the Party is better positioned than firms to benefit from party-building.

The article first defines informal regulation and explains the extent to which party-building matches this definition. The second and third sections explore the history of party-building in Chinese private businesses and the role of party cells in private internet firms. In the fifth and sixth sections, the research design is explained and the findings are presented. The final section discusses the significance of these findings.

## **Political economy of internet regulation in China**

In regard to informal regulation and formal regulation, the party leadership wields its power differently under these two forms. Under *formal* state regulatory frameworks, including statutory law, regulation activities and the exercising of official powers follow formal channels and are, at least in theory, subject to public scrutiny. State regulatory institutions publicly announce and implement the rules which the party leadership at the corresponding administrative level have agreed upon beforehand. Thus, if the party leadership exerts its power via state institutions and does not directly enforce regulations on firms, then the party cannot be held directly responsible for decisions and enforcement of those regulations. Under *informal* regulation, however, party institutions directly interact with firms without going through state institutions as intermediaries.

### *Toward a definition of informal regulation*

Governance and regulation of media, media technologies, and media platforms have been the subject of intensive academic debates (Puppis, 2010; Chin, 2018; Gillespie, 2018; Flew, 2021). Puppis understands governance as “an analytical concept”, denoting “the entirety of forms of rules aiming to organize media systems” (Puppis, 2010: 138-139). Governance often captures the necessity of involving civil society in decision-making at all levels of the political system (Puppis, 2010: 136; Mayntz, 2004: 66). In contrast, regulation is overwhelmingly associated with the activities of governmental institutions intended to shape the behaviour of private actors (Ma, 2024a: 31). It has been used far more frequently than governance to capture state-firm hierarchical relations in policy areas as diverse as antitrust (Ma, 2024b), broadcasting (Chin, 2018; Puppis et al., 2014), fintech (Wang and Doan, 2018: 30-32), content moderation (Gillespie, 2018; Flew, 2021), telecommunication (Puppis et al., 2014), and artificial intelligence (Ma, 2024c; Hine and Floridi, 2024). Regulation of private firms matter for building the accountability and legitimacy of governmental actors (Puppis et al., 2014; Chin, 2018).

Regulation has three meanings: (a) a process in which public agencies promulgate an authoritative set of rules, monitor and promote firms’ compliance with them (Baldwin et al., 1998: 3), (b) all state actions designed to influence business or social behaviour (Baldwin et al., 1998: 3), and (c) all mechanisms of social control, by whomsoever exercised (Jordana and Levi-Faur, 2004: 3).

This article considers (a) and (b) as formal modes of regulation for three reasons. First, state institutions with formally mandated power over firms spearhead the regulation process. Second, state regulatory bodies regulate firms through clearly demarcated rules, channels and mechanisms and can enforce them with binding effects. Third, regulatory objectives are clearly stated in policy documents, and are, generally speaking, coherently reflected in regulation processes and decisions. Firms can hold regulators accountable if the latter deviate from the proclaimed procedures or objectives.

For the purposes of this article, (c) minus (b) is defined as *informal* regulation, a specific mode of which is party-building.

Regulation taken as (c) minus (b) recognizes that non-state actors can act as regulators. In China, party-building is not spearheaded by state institutions, but by party institutions (Lin and Bu, 2022). The latter include the CAC and the CDO at the central level, TNOCs (Two New Organizations Committees) and ISPCs (Internet Sector Party Committees) at the local level [2]. The competences of state institutions, led by the State Council, are clearly stated in statutory documents. The competencies of party institutions (e.g., TNOCs ISPCs) are unclear. As will be shown in Section 5, via party cells created inside private internet firms, local party institutions can influence the decision-making of internet firms on sensitive internal issues such as the nomination of managerial staff, content moderation, and the co-option of entrepreneurs.

Regulatory rules in informal regulation are not necessarily released in the forms of laws or statutes. In other words, they may not be “the products of state activity” (Baldwin et al., 1998: 4). Therefore, regulated firms lack legal channels to hold party institutions accountable. This allows local party institutions to practice differentiated treatment of firms, instead of the equal and consistent treatment expected under formal regulation. The rules on party-building are fluid, flexible, and soft; ultimately, what matters is not so much the forms of party-building as the role of cells as a vehicle for wielding the Party’s power. Many rules used for promoting party-building are not mandatory. For instance, the ISPCs and the TNOCs, two local party organizations in charge of promoting party-building in private internet firms, cannot routinely organize cell activity within firms.

The procedure for creating party cells in China also demonstrates the fluidity of party-building. The basic requirement for private firms with party cells is that the latter should have at least three

party members. However, a firm satisfying this requirement does not necessarily build party cells. The reasons are diverse, for example, a lack of pertinent candidates to serve as the party secretary, or an employee's party membership not being transferred to her current workplace. Firms failing to create party cells for such reasons have seldom been sanctioned, particularly if they do not attract the attention of the TNOCs or the ISPCs. An internet firm with less than three party members is, in principle, exempted from building party cells. However, if it operates in content provision or is economically important, it is very likely to create a joint party branch with other internet firms. In Dezhou, Shandong province, the Solar Energy Village Internet Firms Joint Party Branch was created in 2020. Its six party members came from the five internet companies of the Village (Baijiahao, 2023).

The objectives of formal regulation are clearly stated and generally adhered to in implementation, although it is not impossible that formal regulation can produce unintended consequences (Black, 2001). In contrast, the objectives of informal regulation are ambiguous. When party institutions do spell them out, they are frequently not the objectives actually pursued in practice. Article 33, paragraph 3 of the CCP's constitution, amended in 2017, stipulates that party cells in private firms assume the following responsibilities: "implement the CCP's guidelines and policies...guide and supervise firms' respect of laws and statutes...unite workers and masses, protect their legal rights and interests, and promote a healthy development of the concerned firm". In practice, the objectives of party-building are more complicated. One objective is to help the Party mitigate the challenges that private internet firms pose in the propaganda domain (Xue, 2018). Central and local party institutions cannot always make these objectives explicit, in particular when the latter are self-serving. Therefore, there exists a rhetorical gap between party institutions' stated purposes and real intentions in informal regulation. Given the latter's opacity, internet firms can hardly hold party institutions accountable.

Although informal regulation understood as (c) minus (b) resembles the broader notion of governance, this article uses "regulation", not "governance", to capture Party-firm relations in China. This is because regulation is one instrument of governance (Rosenau, 2009; Ginosar, 2013; Puppis et al., 2024). Governance has three pillars: cultural-cognitive, normative and regulative (Puppis, 2010), denoting more encompassing domains than regulation. Defined as "different modes of action coordination" (Mayntz, 2009: 121-122), "governance" goes beyond the formal aspects of polity, politics and policy (Levi-Faur, 2012), and can be an unintentional process (Hall et al., 2000). By contrast, in media regulation, rules are deployed to achieve specific policy goals (Puppis, 2015; Ali and Puppis, 2018: 272). "Regulation" is preferred to the term "governance" because it better captures the intentionality of party institutions when the latter nudges internet firms to create party cells. While "governance" often entails stakeholders' horizontal relations (Ginosar, 2013: 363), Party-firm relations are hierarchical in party-building (Yang and Wei, 2024). Power in "hierarchical Party-firm relations" differs from that understood from the classical Marxist perspective. The latter upholds "an instrumentalist view of power" whereby some actors hold, in a fixed and deterministic way, greater influence over others (Fitzgerald and Winseck, 2018: 92). Instead, "hierarchical relations" in this article denotes Party-firm relations that are oftentimes unequal yet negotiable and opposable at other times.

### *Informal regulation at work*

The regulation of internet firms can happen both through formal and informal regulatory channels (Jiang, 2015). However, informal regulation has attracted less academic attention (Jiang, 2015) because it is less visible and accessible. Under informal regulation, non-state actors, like trade unions, can engage in regulatory behaviour, deploying methods (e.g., interviews, persuasion) outside of

formally recognised rules. Informal techniques are used when regulators “do not scrupulously follow clearly delineated and neutrally enforced rules in exercising their control rights over private enterprises” (Milhaupt and Zheng, 2015: 685). This may include control by industrial associations, interviews with managers of private firms, and the prodding of private firms to participate in state-led industrial restructuring (Milhaupt and Zheng, 2015). The fact that semi-official industrial associations, like the Internet Society of China (ISC) and the China Federation of Internet Societies (CFIS), promote the “self-discipline” [3] of private internet firms (Ma, 2024a) is an example of informal regulation. Other informal methods are also mobilized. Propaganda institutions send guidelines to content providers each day to moderate online content (Miao et al., 2021); governmental institutions recruit internet commentators to monitor citizens’ comments on public policies adopted (Han, 2015, 2018; King et al., 2017); and local party institutions urge the creation of party cells in internet firms to ensure that firms do not stray away from the CCP’s ideological parameters (Xue, 2018). None of these measures are specified in formally proclaimed laws, statutes, or legal interpretations.

The term “institutional bridging” (Milhaupt and Zheng, 2015) illustrates the functioning of informal regulation. It denotes “dense, stable networks of relations fostered through rotations of managers, personnel exchanges, and the wearing of multiple hats...by managerial elites in China” (Milhaupt and Zheng, 2015: 683). Private entrepreneurs can build institutional bridges with the Party in multiple ways: becoming party members; joining the People’s Congresses (PCs) or the People’s Political Consultative Conferences (PPCCs); and inviting officials to speak at the events they organize (Milhaupt and Zheng, 2015). In terms of institutionalist political economy, “institutional bridges” describe how institutional actors form relations via informal channels of information exchange, socialization, and influence. The functions and effectiveness of institutional bridges are implicit, contingent and contextualized, as opposed to explicit, predictable and permanent regulator-firm interactions [4].

Informal regulation is by no means limited to the Chinese context, of course. For example, the U.S. government also mobilizes informal regulation to influence the behaviour of firms. When building his power-elite theory, C. Wright-Mills described how a cosy “revolving door” facilitated the cooperation between the Pentagon and the Military-Industrial Complex (Wright-Mills, 1956/2000). Herman and Chomsky (1988) advanced the “propaganda model” to explain how American mainstream media—and broadcasting corporations—become subservient to government and corporate interests, even without being explicitly required to do so. For Herman and Chomsky, state actors play a key role in the “filter” which shapes news reporting by controlling access to the information and sources competed for by media outlets (1988:2).

In the United Kingdom, “professional econocracy” means the informal links that economic, political, and academic elites maintain due to their increasingly common educational background in economics (Davis, 2017). Thanks to professional econocracy, a new basis for elite ideological and institutional cohesion, British political elites can induce more willful cooperation from economic elites, for both groups share a common set of ideas, norms and interpretative frameworks. Econocracy “offers a means of elite mobility across sectors and networks, as well as the means to avoid long-term accountability” (Davis, 2017: 600). Under professional econocracy, the mutuality of political and economic elites further consolidates their ideological homogeneity.

#### *Weaknesses of the existing literature*

Despite the insights that emerge from the existing literature, more nuanced conceptions of regulation and state power are merited. It is important to distinguish formal regulation from informal regulation of private internet firms more explicitly. These two regulatory forms are often simultaneously mobilized in China, such that observers may find it unnecessary to differentiate between them. However, discussing formal and informal regulation separately helps identify their contribution to the objectives of the party leadership at central and local level. I argue that formal and informal regulations play different roles in China. Formal regulation serves to legitimate the power of party institutions, for regulatory activities deployed within formal mechanisms by state institutions are rule-abiding. In contrast, informal regulation allows party institutions to achieve their objectives by interacting with regulated firms without having to go through state institutions. Since informal regulation needs less public justification, it effectively extends the Party's power reach and indirectly shapes the scope of actions available to media actors.

Discussing formal and informal regulations separately also helps pinpoint the manoeuvring room of private internet firms in China. Although firms can create institutional bridges with party institutions under informal regulation (Milhaupt and Zheng, 2015), I argue that informal regulation empowers party institutions more than internet firms. As will be shown later, institutional bridging forged under informal regulation can relieve internet firms from the burden of complying with formal regulation; for example, private internet firms with party cells enjoy simplified procedures when applying for bank loans. Nevertheless, institutional bridging becomes ineffective if the issues at hand put the Party's core interests at stake. For instance, despite the proximity between Alibaba and party institutions (because of the former's active participation in party-building since 2000), Alibaba was subject to a record-high sanction of 18.28 billion yuan for its monopolistic practices in 2021. The reason was that the core priority of the Party leadership back then was to prevent private internet firms from threatening the Party's authority. Such anxiety is not unfounded. Chinese tech giants have more information on Chinese citizens than the Party does thanks to their monopolistic control over citizens' behavioral data.

The existing literature has not clearly distinguished the Party's role from the State's role in respect to internet regulation. This is partly influenced by the deep-seated one-party rule in China under which party institutions make decisions and state institutions implement them. Such a division of labour is present both at the central level (e.g., the CCCCPC rules over the State Council) and the local level (e.g., in a province, its Party Secretary, not its Governor, decides). This institutional layout is characterised by a deep embeddedness conjoining the power of party institutions and that of state institutions, such that it is not always easy to separately measure the role of each. This is underlined by the fact that eminent scholars in Chinese studies oftentimes call China a party-state (Han, 2018; Cabestan, 2018; Negro, 2017).

However, the CCP is, to a large extent, the source of Chinese political power (Cabestan, 2018). In internet regulation, for instance, central party institutions are the ultimate decision-makers in Chinese political economy and hold significant power over the design of both the formal and informal regulation frameworks. Informal regulation is deployed when formal regulation cannot serve the Party's self-serving interests. For instance, under formal regulation local party institutions cannot directly regulate firms, let alone interfere with their internal personnel arrangements. However, through informal channels such as party-building, they can influence the nomination of key managerial and technical positions in private firms. This point will be developed later. Moving like quicksand, informal regulation has weak public visibility, is scantily traceable, and leaves few hints



to curious outside observers. It constitutes a powerful instrument enabling the Party to self-serve without being held accountable by regulated firms.

## **Trajectory of party-building in non-public firms**

Creating grassroots party cells in private firms is not new in China [5]. This practice stems from the Party's need to neutralize the potential threats that private sector actors could cause to its leadership (Dickson, 2007; McGregor, 2010). In 1999, Jiang Zemin worried about the absence of party cells in private firms whose economic importance had become significant in the mid-1990s (McGregor, 2010). Although China had more than 1.58 million private companies by the end of 1999, only 1.5% had party cells (CDO, 2000). At the 16<sup>th</sup> Party Congress in 2002, a national conference held every five years for changing the central party leadership, Jiang Zemin announced that private entrepreneurs could join the CCP. The concept "three representations", advanced by Jiang Zemin in February 2000, revealed the CCP's new policy orientation. It was declared that "the CCP should always represent the requirements for the development of advanced productive forces, the development direction of the advanced culture, and the fundamental interests of the overwhelming majority of the population". The "three representations" policy differs from the CCP's traditional alignment with the proletariat. It recognizes that the CCP also represents the interests of private entrepreneurs, who embody "advanced productive forces in China".

With the growing economic clout of private businesses (Buchholz, 2021) [6], the Party's imperative to exert control over private firms intensified. This served three interrelated purposes: ensuring the Party's informal surveillance over firms' activities; preventing the expansion of the private economy from weakening communist ideology; and organizing party members hitherto scattered inside private firms into well-coordinated party cells. On 13 September 2000, the CDO issued the first document on party-building, which required all non-public economic entities to create a party cell if they had at least three party members (CDO, 2000). It stipulated that the leaders of a party cell in private firms be democratically elected by all party members. However, Part 3, paragraph 4 of the CDO document stipulates that "if the conditions for organizing elections are not ready, higher-level party organisms can send or designate party cells' leaders. Elections take place when the conditions are ready". The actual "conditions for organizing elections" remained unclear. The statute also said that in small companies, the party secretary of the party cell could also preside over the firm's labour union, thus reinforcing the CCP's connections with workers. In 2003, the first National Conference on Party-Building in Non-Public Companies (NCPB) was held. In 2007, party-building in non-public firms unfolded nationwide to drive party cells' coverage before the 17<sup>th</sup> Party Congress in 2012. In June 2012, the number of party cells in private firms had increased by 50.14% in comparison with June 2011 (albeit without reaching full coverage) (gov.cn, 2013).

One of the most important functions of party-building is to keep private businesses within the oversight of local party institutions (McGregor, 2010). However, nudging private firms to create party cells is not exclusively about securing the regime's survival. Party-building reflects the CCP's historical emphasis on reinforcing its internal organization (Xue, 2018). After the Chinese Companies Law of 1993 legalized the private ownership of commercial undertakings, private firms mushroomed in China. Chinese tech giants, such as Alibaba, Tencent, Baidu, and 360 Group, were created in this era (Clark, 2016). Among the employees recruited by private firms, some were party members and others had no partisan affiliation. Private firms urged all their employees, irrespective of their party membership status, to serve the primary objective of making profits. Therefore, party members

working in private firms were unorganized and, as institutional actors, profit driven. Apart from serving the purpose of control, nudging private firms to create party cells was part of the CCP's efforts to prevent economic liberalization from weakening the communist ideology of its members.

Article 30 of the CCP Constitution, amended in October 2017, stipulates that a "party branch" *should* be created in any firm (regardless of its ownership structure), research institution, military organization, and governmental institution with 3-50 party members. The party branch becomes a "party general branch" or a "party committee" if the number of party members reaches 50-100 ("party general branch") or above 100 ("party committee"). If a private firm has less than three party members, it can create a joint party branch with the party members working in nearby firms. If circumstances make it necessary to create a party committee in a private firm, higher-level party organs can approve it even if the number of party members does not reach 100. As organised entities, party cells facilitate information transmission and concerted actions between private firms and local party institutions, namely through the Internet Sector Party Committees (ISPCs) and the Two New Organizations Committees (TNOCs).

In May 2012, the General Office of the CCCCCP (GO-CCCCP) issued its opinions on reinforcing party-building in non-public firms (GO-CCCCP, 2012). The objective to realize the full coverage of private firms by party cells was reasserted. It said that local party institutions could send advisors to private firms without party cells to help with party-building. Such firms could create labour unions, or communist youth leagues as preparatory initiatives for creating a party cell. The GO-CCCCP required that county governments and designated supervisory bodies oversee party-building in private firms. For influential firms, the supervisory body could be moved directly from the county to the prefectural government to facilitate Party-firm information exchanges. It is important to note that party cells have no decision-making power over firms' daily management. The GO-CCCCP sought to build multiple forms of coordination and deliberation between a firm's managerial team and their party cells (GO-CCCCP, 2012). For instance, it suggested that the party secretary of the firm's party cell be invited to attend the firm's important meetings. The arrangement permits informal Party surveillance of firms, while also conferring potential benefits. For instance, the party secretary of a firm reports the concerns of firms (e.g., difficulties in hiring, unfamiliarity with policies, need for information, unfair competition on the market) to higher-level party organizations at the local level which can help expedite the resolution of such concerns.

Before the Xi Jinping administration came to power, the functions of party cells in private firms were to "mediate employees' grievances", "provide ethical and spiritual guidance", serve as a "sleeper cell to be activated in a crisis", and make firms eligible for receiving visits from high-level governmental officials (McGregor, 2010: 216, 218). In a private firm, the secretary of the party cell who is not a high-level manager can be easily sidestepped (Mitchell and Liu, 2020). When a high-level manager simultaneously leads the party cell of her firm, she often prioritises commercial interests and contents herself with parroting the speeches of central and local party leaders (McGregor, 2010). Importantly, this situation has changed since Xi Jinping took power in 2012.

## **Party-building in internet firms**

Internet firms have acquired significant economic power in China and their control of large quantities of user data causes anxiety. In late 2020, the Chinese government initiated the "de-tycoonification" of the internet industry to prevent internet firms' economic power from translating into political power ("China's rulers want more control of big tech", 2021). Building party cells in internet firms

allows the Party to monitor firms' routine activities, such as the moderation of content, recruitment of editorial staff, and corporate investment plans. Although party cells have no decision-making power in private firms, their presence allows the Party to defuse potential risks, if there are any at early stage. Thus, local party institutions, to which party cells of internet firms report their work, can obtain timely information on employees' opinions, grievances, and concerns. Depending on the severity of the cases, they can then decide whether and how to work with firms to address such problems.

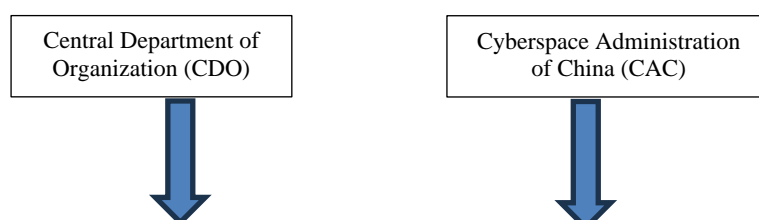
After 2012, the principal achievements of the Party in promoting party-building were as follows:

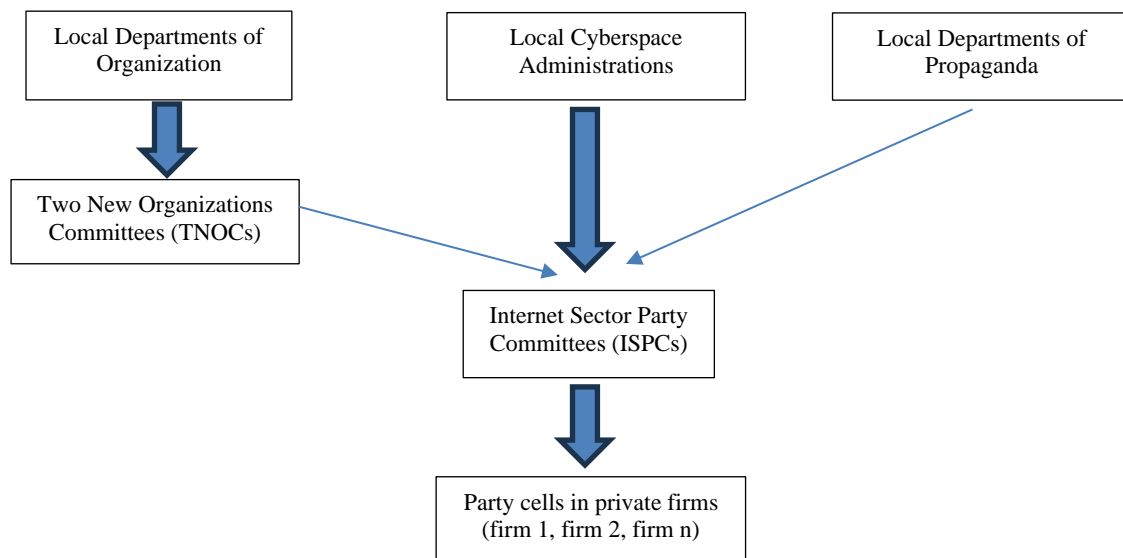
In 2018, the CDO and the CAC convened the National Conference on Party-Building Work in Internet Companies; in 2019, the CDO released guidelines and established an overall work plan... 31 provinces and provincial-level municipalities and nearly 80% of prefectural cities have created the ISPC... Party cells covered all the 722 important firms, list fixed by cyberspace administrations at different levels... In 76.7% of these firms, high-level managers are also the secretaries of party cells." ("High-quality party-building", 2021)

Two new forms of party-building deserve attention. First, localities have been creating their Internet Sector Party Committees (ISPCs). Created at the county, municipal and provincial levels, ISPCs are led by the corresponding cyberspace administrations. Local departments of Party organization and local departments of propaganda can also send instructions to ISPCs. ISPCs oversee and promote party-building in private internet firms within their respective jurisdictions. It is important to emphasize that central party institutions have no direct interactions with ISPCs. Central party institutions must go through their local outposts to influence the activities of ISPCs. The latter represents an institutional innovation for party-building in the internet sector, as comparable organisations do not exist in other economic sectors (e.g., textiles, automobiles, civil aviation, petroleum). The leader of ISPCs is also the director of the cyberspace administration and the deputy director of the propaganda department at the corresponding administrative level. The creation of party institutions like ISPCs represents an informal *ex ante* regulation approach. They link with internet firms via party cells so that firms behave themselves, even before formal regulation begins.

In September 2016, the GO-CCCCP issued the *Opinion on Reinforcing Party-Building in Social Organizations* (Experimentation) (GO-CCCCP, 2015). This document said that, within the party committee at county government level and above, the party organization overseeing party-building of private internet firms and that which oversees party-building of social organizations are to be merged. The Private Firms and Social Organizations Work Committee of the CCP, which resulted from the merger, was shortened to the "Two New Organizations Committee" (TNOC). At the local level, the leader of the TNOC is also the deputy leader of the local department of organization. The latter oversees the ISPC via the TNOC. Figure 1 illustrates the relations of the party institutions that promote party-building in private internet firms under Xi Jinping:

Figure 1: Relations between the Party institutions for promoting party-building





Note: Thick lines represent close hierarchical relations and thin lines loose hierarchical relations.

Internet firms are encouraged to conduct party-building together with other internet firms in the framework of *ronghe gongjian* – “integrated and joint party-building”. This term means that driven by practical needs, internet firms with party cells can jointly organize activities within the framework of and/or in the name of party-building. The activities are not necessarily about party-building; information exchanges on professional activities, on-site visits, and conferences on topics other than party-building may occur. The objective of such activities is oftentimes to promote networking among internet firms by using party-building as a platform. The utility is twofold. First, vis-à-vis local TNOCs and ISPCs, party cells of the internet firms that participate in “integrated and joint party-building” look active and engaged in promoting party-building. Second, vis-à-vis internet firms where they are based, party cells show their utility, because they help satisfy firms’ needs for information, resources, networking, or cooperation opportunities. For example, Dianchu and 4399, two influential online gaming firms in Xiamen, organized joint party-building activities. In Beijing, Umfintech and the Department of Platforms of China Mobile did the same (umfintech.com, 2019). ISPCs, particularly, promote “integrated and joint party-building” in internet firms listed in the top 100 at the national level or in the top 20 at the municipal level. The reason is that advertising the participation of influential internet firms can constitute a signal to less influential firms (Xue, 2018) to follow the leading example. These practices help reduce ISPCs’ costs for increasing the party coverage among small firms.

Party cells acquired greater power under Xi Jinping in four respects. First, they were increasingly able to recommend the employees who were also party members to the key managerial and technical positions of a given firm. The general manager and managers of a firm, nominated by the board of directors, could nominate other high-level managerial and technical staff at the firm level (for the general manager) and at the departmental level (for managers). However, party cells of a firm could influence the nomination by recommending party member candidates. Ample empirical evidence

supports this point. In 37 Interactive Entertainment, an online gaming firm, 46% of its high-level managers were party members (37 Interactive Entertainment 2019, 33-34). In [www.66wz.com](http://www.66wz.com), the largest news portal of Wenzhou owned by *Wenzhou Daily*, the percentage of the party members working in the core positions, including news editing and technological development, was 59.3% by April 2018 (hxxw.gov, 2018).

Second, party cells in internet firms have been actively developing new party members: Alibaba established a party branch in 2000 [7]. In 2018, the number of its party members reached 3,300 (duibiao.org, 2018), inferring that, in 8 years, Alibaba's party cell had increased the number of party members by at least 6,500%! The rapid increase of party members in internet firms suggests that party cells encourage ordinary employees to join the Party, which increases the Party's embeddedness into the rank-and-file staff of internet firms. Since each party member must participate in the activities organized by her party cell (e.g., collectively studying the thoughts of Chinese leaders and/or visiting the places where the anti-Japanese war happened), consequent increases in party members constitutes a vector for Party influence on other employees.

Third, party cells help co-opt successful entrepreneurs. Firm leaders who join the People's Congresses (PCs) and the People's Political Consultative Conferences (PPCCs)—two principal deliberative institutions in China—are recommended by party cells in their firms beforehand. For instance, at the beginning of 2020, the ISPC of Shenzhen recommended 17 entrepreneurs of private internet firms to PCs and PPCCs at all administrative levels ("Exemplary case 2", 2021). Although PCs and PPCCs have scant decision-making power (Chen, 2015), they are the only significant channels in China through which entrepreneurs can influence law and policy proposals, deliberate over the proposals of other delegates, provide feedback on public policies, and socialise with government officials (Jeffreys, 2016). The leaders of internet firms without party cells are largely excluded from these deliberative institutions. In this sense, internet firms with party cells are consulted more frequently by policymakers than their counterparts without party cells.

Once admitted into these deliberative institutions, private entrepreneurs obtain greater proximity to policymakers and share the agenda-setting power of the PCs and the PPCCs by making proposals. Chinese private entrepreneurs are able to influence policymakers after being co-opted, for they become more trusted by the Party (Ma, 2024a). The Beijing-based 360 Group was founded in 2005. As one of the largest developers of cybersecurity software in China, 360 Group created its first party cell in 2011. Its president, Hongyi Zhou, joined the National People's Political Consultative Conference (NPPCC) in March 2018 and has remained in an elected position over subsequent years. He exploited these opportunities to make policy proposals that served 360 Group's commercial interests. In March 2022, one of Zhou's proposals was to promote the construction of digital security services in Chinese cities, allowing municipal governments to monitor in real time the occurrence of cyberattacks. Since 360 Group has advantages over its competitors in this area, it stands to benefit from the proposal if it passes into law (at the time of writing, this is under deliberation in the Chinese legislature).

Fourth, party cells' influence on the routine activities of internet firms has grown. This is particularly true for influential internet firms operating in the fields of social networking, online games, fintech, and e-commerce. Sina Weibo, founded in 2009, is the largest microblogging platform in China, and has become the Party's ideological battlefield for public opinion. Under Hu Jintao (2002-2012), the regulation of online expression on Sina Weibo was relatively loose, partly because regulators were not familiar with the mechanisms for controlling this platform. As a result, Sina Weibo facilitated the coordination of influential online mass incidents in China, including the well-

known case of the corrupt official Dacai Yang in 2012 (Negro, 2017). Given the potential of Sina Weibo to nurture collective mobilizations, the party leadership under Xi Jinping emphasizes two issues when regulating internet firms: overseeing the latter's ideological orientation; and ensuring that the firms' economic power does not translate into political influence (as has happened with the economic clout of American tech giants). Against this backdrop, the CDO and the CAC intensified their promotion of party-building within internet firms. In 2015, Sina Weibo created its party committee under the pressure of party institutions in Beijing [8] and placed party members in content moderator positions. Party cells' deep embeddedness into Sina Weibo served the party's interests, for party members are expected to curb harmful speeches with greater endeavour than those employees who are not party members (Xue, 2018).

The above discussion shows that the Party has been stealthily and steadily increasing its presence in private internet firms by promoting party-building. It illustrates that party cells have acquired greater power after 2012 than before that date in influencing personnel nomination, persuading employees to become party members, co-opting firm leaders, and monitoring firms' routine activities. These functions are largely control-oriented and do not fully match the public-regarding functions of party cells that are inscribed in the party constitution of 2017 (article 33).

## Data and methods

To fully comprehend party-building as an interactive mechanism of informal regulation, it is necessary to scrutinize firms' reactions to the Party's presence via party cells because this helps reveal the outcomes of party-building as an informal channel of control and influence. I investigated party-building in the top 100 internet firms listed in the *2020 Report on the Comprehensive Capacities of Chinese Internet Firms*, released in October 2020 by the ISC (Internet Society of China) and the IC-MIIT (Information Centre of the MIIT). The two institutions started releasing the annual rankings of the top 100 internet firms in November 2013 [9]. They publicized the proportion of internet firms with party cells in 2018; however, for unknown reasons, the 2019 and 2020 reports did not contain such information. The 2020 ranking is based on six financial and activity indicators: firms' size, revenues, innovation capacities, growth potential, influence, and corporate social responsibility (ISC and IC-MIIT, 2020).

I created an Excel containing the data on 100 firms and checked each firm's website, verifying whether it mentioned "party-building" there and indicated the year when it created its earliest party cell. Only 18 of the 100 firms indicated party-building information on their website. For the other 82 firms, I therefore checked other websites to determine the presence of party cells. To verify the accuracy of my inquiries, I then cross-referenced the reported data with reports from several news websites. In particular, [thedangjian.people.com.cn](http://thedangjian.people.com.cn) and [sohu.com](http://sohu.com)—two websites that regularly report party-building activities in private firms—constituted important sources of information during data collection.

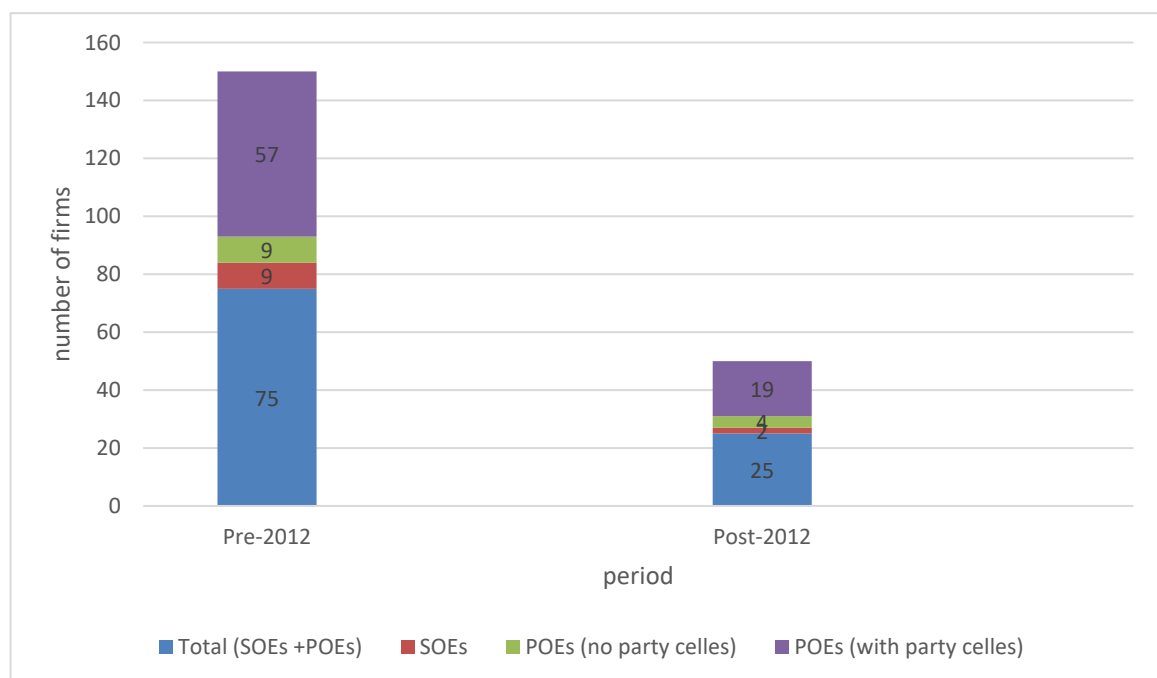
The compiled data serve two objectives. First, they unveil whether the top 100 Chinese internet firms in 2020 have party cells, regardless of being a party branch, a party general branch, or a party committee. Since all the three forms signal the party's presence, they were coded in the same way. If the party branch of the firm was upgraded into a party general branch, I checked the year in which the original party organism was created. For instance, Baidu created a party branch in 2005, which became a party committee in 2011. I counted 2005 as the moment when the party is present in Baidu. Second, the compiled data reveal the period separating the creation of the firm from that of the party

cell. By controlling for the year of creation of the firm, I identified the period where the creation of party cells was most intensive. This was when the Party was most eager to exert control over private internet firms and was most worried about internet firms' potential to influence public opinion.

## Results

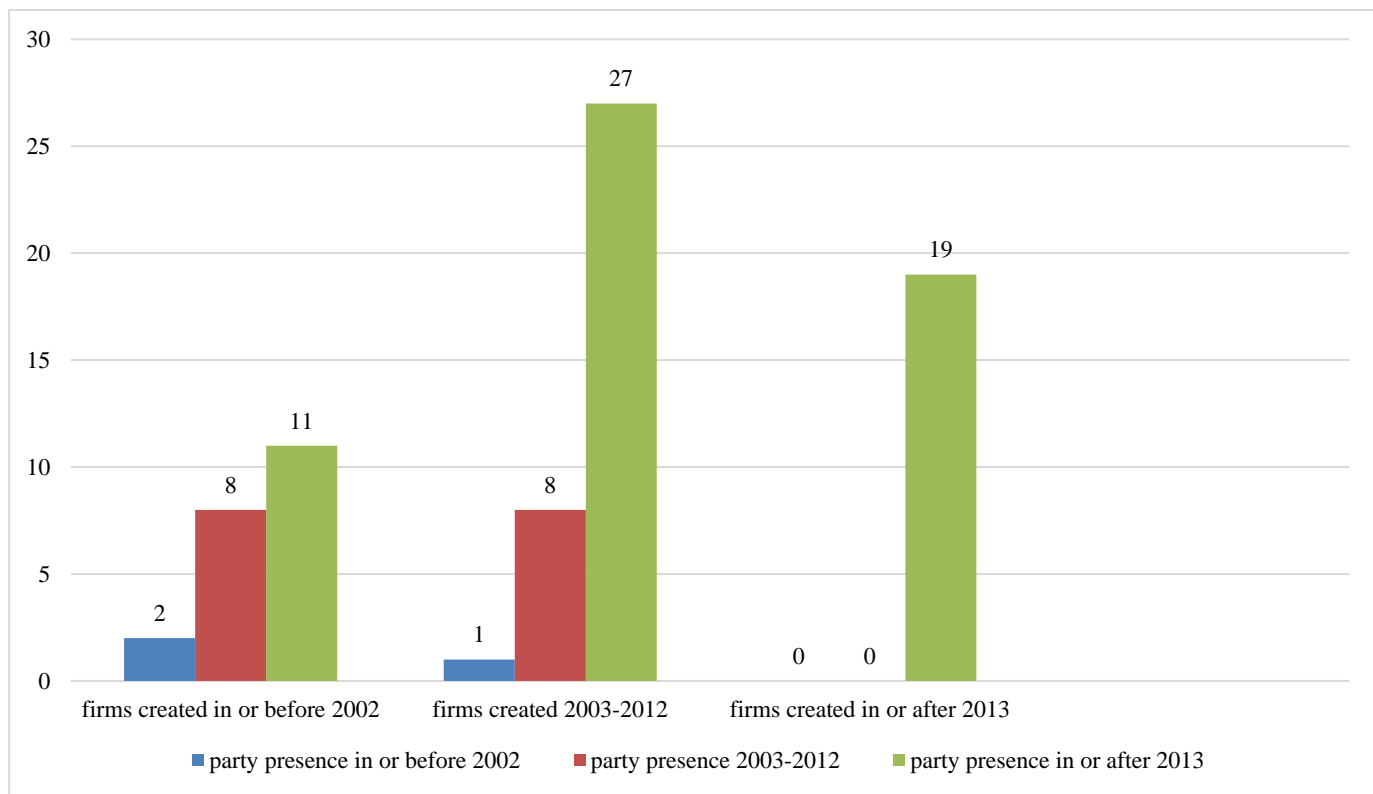
The data show that 87 of the 100 firms have party cells [10]. After excluding irrelevant data, namely the 11 state-owned enterprises (SOEs), the rate of party presence (76/89) becomes 85.39%, not 87%. I divided the 76 (87 minus 11) private firms with party cells as follows: firms created before and after 2012 (because in November 2012 the new Party leadership was established). Among the 76 firms, 57 were created before and 19 after 2012 (Figure 2).

Figure 2: Comparison of the internet firms created before and after 2012



Source: Compiled by the author based on the 2020 Report on the Comprehensive Capacities of Chinese Internet Companies. The information on the creation of party cells comes from the website of internet firms, people.cn, sohu.com

Figure 3: Distribution of internet firms based on party presence



Source: See Figure 2 source details [11].

Figure 3 classifies internet firms over time based on two moments: the year the internet firms were established and the year their first party cell was set up. The breakdown above indicates that after being established, internet firms did not immediately create party cells. Irrespective of the year of creation of internet firms, most set up their first party cell in or after 2013. In fact, 38 of the 57 firms established before 2012 set up their party cell in or after 2013. In total, 57 firms established party cells in or after 2013. The post-2012 period can be considered the critical period of party-building in private internet firms of China.

No party-building information was available on 13 internet firms. While a lack of information does not necessarily mean the absence of party cells, it at least suggests this was not regarded as a priority worth publicizing. Table 1 summarizes the information of these 13 firms. Their passivity toward party-building is weakly correlated with the year of their creation or their headquarters. As shown in Table 1, nine of them were created in or before 2011, i.e., before the administration of Xi Jinping took power. Should they need to build institutional bridges with the Party via party-building, this would presumably have been done in or after 2013, the period during which the CDO and the CAC and their local outposts were strongly promoting party-building in internet firms. Regarding headquarter location, the seven cities in Table 1 are all strongholds of the Chinese digital economy. For this reason, if local party institutions were interested in promoting party-building in these firms, the latter would be unlikely to resist the pressure.

However, it is important to pay heed to the fact that party-building can take time. While certain firms create party cells immediately after they are founded (e.g., Alibaba), others do not. For instance, Sohu, an internet firm in entertainment and news information, was founded in 1998 and created its first party cell in 2014. For this reason, one cannot exclude the possibility that the 13 firms may create party cells in the future or publicize party-building information if they already have party cells.



Table 1 shows the economic importance of internet firms and how their activities influence firms' participation in party-building. Concerning economic importance, with the exception of Link Sure Network and Doctor Peng, the other 11 firms rank at or below the top 50 while 8 firms rank below the top 60. Given that the top 30 internet firms all have a party cell, it is reasonable to infer that the Party pays greater attention to the party-building in economically strategic firms than economically non-strategic ones. It also suggests that economically strategic firms have more political motivation to appease the Party and to signal their loyalty by building party cells.

Concerning activities, it is interesting to note that internet firms with no apparent party cells are seldom content providers. In Table 1, Mobvista is the only company whose activities are related to content (advertising). However, it provides services mainly to firms, not individuals, implying that it doesn't compete with the Party in influencing public opinion. As an online gaming company, the Beijing-based Kunlun Tech Co is also expected to be active in party-building. However, since Kunlun generates 70% of its revenues from the overseas market, its reliance on the Party is lighter than its counterparts (who operate principally on the domestic market). It is therefore possible that Kunlun does not consider it necessary to participate in or advertise party-building activities. Concomitantly, party institutions are less likely to push party-building in firms like Kunlun because they have less potential influence over domestic public opinion than internet firms operating mainly inside China.

Firms' activities hold greater explanatory power than their economic strength for predicting whether firms will actively participate in party-building. Firms ranking below the top 90 are economically less strategic (Table 2). However, when firms operate in content-related sectors and have the potential to influence public opinion, it is highly probable that they will have party cells. Irrespective of their size and turnover, internet firms providing content or platforms for third party content simultaneously have greater motivation to comply and will be pressured from local party institutions to build party cells (more so than other online service providers).

Quwan, ranked 94<sup>th</sup> in 2020, was created in 2014 in Guangzhou. After creating a party cell in 2018, the CAC acknowledged its loyalty as one of the 100 Exemplary Party-Building Firms (Pan, 2019). No formal rules stipulate the benefits that such honours confer on firms. However, firms afforded such official recognition enjoy greater proximity to high-level officials and have easier access to bank loans (McGregor, 2010). The aforementioned 360 Group and Doctor Peng provide two contrasting examples. Hongyi Zhou, president of 360 Group, is a member of Jiusan Society, one of the democratic parties in China. Although Zhou is not a member of the CCP, the fact that 360 Group started its party-building activities back in 2011 has enabled Zhou's inclusion in the NPPCC. In contrast, Doctor Peng, a provider of data services, has not actively pursued party-building. Neither the firm's official website nor any available information online has mentioned the firm's participation in such initiatives. Weituan Lv, CEO of Doctor Peng, has never been elected as a delegate to any deliberative institution in China. There may be multiple reasons for this, but the firm's lack of proximity to the Party is a significant factor behind Lv's exclusion from Chinese deliberative institutions.

Table 1: 13 Internet Firms with no public data on party-building

Firm	Activities	Ranking	Creation	Place
Shanghai Link Sure Network	Firm service (security of Internet connections)	39	2013	Shanghai
Doctor Peng	Internet Data Centre, ISP	48	1985	Chengdu
Banksteel	Firm Service (Metallurgy)	50	2008	Shanghai
Wangpin Consultation	Human resources	52	2000	Beijing
Kunlun Tech Co	Gaming	57	2008	Beijing
Qianjin Network Information Technology (Shanghai), Co., Ltd.	Human resources services	61	1998	Shanghai
Beijing Sinnet Technology	Internet Data Centre; ISP	70	1999	Beijing
Shenzhen Fangduoduo	Real Estate	79	2011	Shenzhen
Chuanglan 253	Firm service (verification code via SMS)	80	2011	Shanghai
Dmall	Shopping	83	2015	Beijing
Mobvista	Advertising	85	2013	Guangzhou
Jiangsu Linghao Network	Logistics	87	2015	Nanjing
Working Dwell on DT	Cloud	99	2000	Hangzhou

Source: See Figure 2 source details.

Table 2: Party-building in the private internet firms ranked between 91<sup>st</sup> and 100<sup>th</sup>

Firm	Ranking	Year of Creation	Party Presence	Main Activities
Shanghai Shizhuang Co. Ltd	91	2015	Yes	E-commerce
Beijing 58 Home Co., Ltd	92	2014	Yes	Housemaid services
Guizhou Baishan Cloud Science & Technology	93	2014	Yes	Cloud computing
Guangzhou Quwan Network	94	2014	Yes	Online games
Lvmama Travel	95	2008	Yes	Online travel reservation
Xiamen G-bits Co., Ltd	96	2004	Yes	Online games
Shandong Shiji Kaiyuan E-Commerce Group Co., Ltd	98	2001	Yes	Internet printing services
Working Dwell on DT	99	2000	No	Big Data
Yiche Co. Ltd	100	2000	Yes	Car renting and house renting

Source: See Figure 2 source details. *Note:* Table 2 does not include Haikan Network Science & Technology, which is ranked 97<sup>th</sup>, because it is an SOE.

The CCP's concern about the potential for firms in the online media sector to translate market power into political influence (especially those involved in content provision) explains the Party's interest in extending party cell presence across the internet sector. Since preserving the regime's security is the Party's top priority, there is an imperative to make the internet firms' institutional interests compliant. The fact that high-level managers of private internet firms are often encouraged to become party members illustrates the Party's push to develop these connections. Lin Tingfeng, co-founder and the chief editor of Yuewen Group, an online reading platform, was not a party member when the firm was created in March 2015. After the firm created its party cell seven months later, one of its priority issues was to make Lin Tingfeng a party member (Zhang, 2017).

The above discussion also shows that party-building is selectively, not universally implemented. When private internet firms become economically strategic or provide content-related services, they are usually pressured to establish party cells. From the discussion of the data on party cell development within internet firms, we can discern different factors in the institutional response to such political overtures. Firms operating primarily in the domestic market for revenues are more likely to establish party cells than those firms relying on the overseas market. In turn, this would indicate that the motivation for party-building is more commercial (e.g., easier access to bank loans, greater possibility of being included into deliberative institutions, greater proximity with policymakers) than political (in the sense of genuine commitment to Party ideology). This does not mean that firms always have the option to ignore political overtures encouraging party cell establishment. When directly approached by ISPCs or TNOCs, internet firms may have little choice other than to comply. Refusing to create party cells risks being interpreted as open defiance of the Party.

## Discussion and conclusion

In Chinese political economy, party institutions and state institutions, respectively, spearhead informal and formal regulation. Insofar as party institutions rule over state institutions at the central and local levels of Chinese governance (Cabestan, 2018), informal regulation can be considered to be equally important as formal regulation in China. As discussed, informal regulation entails different mechanisms of exerting power compared to formal regulation: the scope and mechanisms of formal regulation are ultimately determined by the party leadership but publicly implemented through state institutions. In contrast, forms of informal regulation such as party-cell building are decided by the party leadership, but do not go through state institutions. In contrast with state institutions whose responsibilities and regulatory mechanisms are clearly delineated (and which would typically include channels of appeal/redress), the scope of the informal powers wielded by party institutions (e.g., ISPCs and TNOCs) are ambiguous. The scope of this informal influence and the channels through which it may be exerted vary according to the priorities of higher-level party organisations. Thus, informal regulation can be understood as protective of the Party, precisely because its opacity, unpredictability, and arbitrariness prevent regulated firms from holding the Party to account. This helps to preserve the image of what the propaganda apparatus upholds as an “always infallible CCP”. As a mechanism of informal power, party-building must be understood within this context. It allows party institutions to monitor internet firms without going through the formal mechanisms of state institutions. One straightforward indicator is that none of the party institutions in charge of promoting party-building has ever been subject to legal challenge.

From the perspective of institutionalist political economy, an important question to answer here is how informal regulation has shaped the evolution of the Party-firm power relations. Two points deserve attention. First, informal mechanisms like party cells allow private internet firms to create what Zheng and Milhaupt (2015) called “institutional bridging” with the Party. Informal regulatory mechanisms tie firms into the CCP’s large patron-client network which is itself informal by nature. Institutional bridges may provide a protective layer to shield firms from interventions by local authorities (McGregor, 2010) (which may likewise be informal in nature). The fact that successful entrepreneurs in the internet industry, like Robin Li, Pony Ma, Lei Jun (founder of Xiaomi), Zhang Jindong (president of Suning Holdings), are members of the CCP also helps create Party-firm links. Indeed, some of these entrepreneurs have been regularly selected into the PCs or the PPCCs, which allows them privileged access to policymakers.

Second, the Party-firm proximity created via informal regulation does not mean that firms can escape from formal regulation. Although party institutions, not state institutions, guard the ideological field of the regime, both have spheres of authority on economic issues. Given the overlap in their responsibilities here, party institutions and state institutions can have very similar policy positions. At the Shanghai Finance Summit in October 2020, Jack Ma, then president of Alibaba, lambasted the Chinese financial regulators and criticized the “pawnshop mentality” of Chinese state-owned banks (Ma, 2020). Despite the cordial relations between the Party and Alibaba, which involved firm party cells and Ma’s personal membership of the Party, the estimated \$37 billion initial public offering (IPO) of Ant Financial, the financial arm of Alibaba, was interrupted by the Chinese securities regulator two weeks after Ma’s speech. This was because the financial liberalisation that Ma called for was at odds with the Party’s position on Chinese strategic matters at the time, namely, trade war with the USA and geopolitical headwinds in Asia-Pacific.

Interestingly, Ma’s critical comments at that moment did not produce immediate sanctions against him or Alibaba. In fact, the lawmakers accepted some of Alibaba’s suggestions, which aligned with the Party’s interest in reinforcing the e-commerce sector and supporting measures addressing domestic employment. However, neither the Party nor state institutions were inclined to tolerate Jack Ma’s open criticism of the financial regulators. The institutional bridge that Alibaba created with the Party within informal regulation therefore didn’t protect it from being sanctioned within formal regulation.

Ultimately, Party institutions, not firms, initiate, modify, and sometimes terminate informal regulatory measures. For instance, adjustments to party-building rules frequently happen in informal ways. The creation of ISPCs was not indicated in any documents released by party institutions. In April 2018, the ISPC of Shenzhen was created. This was the earliest example of a Chinese ISPC based on the data collected. In 2020, ISPCs were created in other cities, including Beijing, Shanghai, Xiamen, and Hangzhou. Local party institutions created these ISPCs without issuing any written documentation or consulting the internet firms in question. However, once created, ISPCs have been actively promoting party-building in private internet firms. Informal regulation in the form of party cells does not imply a level playing field between firms and the Party because the boundaries and the shape of such relationships are determined by the Party.

The contributions of this article are twofold. First, it has explored the distinction between informal regulation and formal regulation, and in particular clarified the way in which the Party wields power through party cells as a key form of informal regulation in the Chinese internet sector. Second, examining these issues through the lens of institutionalist political economy has highlighted the complex political relationships private sector companies have to negotiate in a rapidly evolving sector

of the economy. Furthermore, as a mechanism of informal regulation, party-building has itself contributed to evolving Party-firm power relations in China. Party-building increases the Party's influence over firms by allowing it to do what formal regulation alone cannot do. This includes the internal surveillance of firms' ideological orientations, the co-optation of entrepreneurs by appointing them to political deliberative institutions, and the promotion of party members to strategic managerial and technical positions. For internet firms, party-building helps improve their position vis-à-vis the Party. Firms with party cells are more likely to be included into political deliberative organs than those without party cells. Nevertheless, Party-firm power relations are not fixed. As the case of Ant Financial's stymied IPO underlines, party-building, as an institutional bridge between the Party and firms, does not always protect the latter from being sanctioned within formal regulatory frameworks.

This article only studies one form of informal regulation in one sector of one country: party-building in the Chinese internet sector. The specific institutional arrangements discussed here may be unique to the case, but it is apparent that strategic relationships between governments and the private internet sector have become increasingly important in many other national and international environments. Further studies to explore what institutional forms informal and formal regulation take in other contexts are therefore needed.

## Author Bio

Dr. Aifang Ma is a Boya Postdoctoral Scholar and Lecturer at the School of Journalism and Communication at Peking University. Her research interests cover regulation of the digital economy, anti-trust regulation of tech giants, and regulation of artificial intelligence.

## Endnotes

- [1] For a full list of these institutions, please consult <https://www.12371.cn/2021/06/17/ARTI1623919675902188.shtml>
- [2] In general, party institutions, such as the Cyberspace Administration of China and the Central Department of Propaganda, don't need to report to the State Council. They directly report their work to the party leadership at the corresponding administrative level.
- [3] "Self-discipline", or "zìlǚ" in Chinese, denotes the fact that private internet firms behave themselves as content providers or services providers without being explicitly urged to do so by regulators. As semi-official industrial associations, the ISC and the CFIS are mandated by their supervising authorities, respectively the MIIT and the CAC, to remind private internet firms to behave themselves or to "self-discipline". This is inscribed into the constitution of the ISC (paragraph 2, article 7) and that of the CFIS (paragraph 8, article 7).
- [4] I would like to thank Associate Professor Peter Thompson, Victoria University of Wellington, for this very helpful suggestion.
- [5] As early as in September 1996, Tianshan Group, a construction firm based in Tianjin, created a party branch. It is one of the earliest non-public firms to have set up a party cell in Tianjin. In the same year, Lifan Group, a Chongqing-based manufacturer of automobiles, created a party branch as well. It is one of the earliest party cell in Chongqing. See *Guangming Daily*, 28 June 2007.

- [6] From 1995 to 2018, the percentage of jobs created by private firms rose from 18% to 87%, that of exportations from 34% to 88%. In the same period, the influence of private firms on fixed asset investment increased from 42% to 65%.
- [7] For the initiation of party cells, there are no fixed rules. Some firms create party cells to show their loyalty to the party. Others create party cells under real pressure, namely after being approached by the Internet Sector Party Committee (ISPC) in their region. Still others create party cells under “imagined pressure”. They believe that if they don’t do so, they would look dubious in the regulators’ eyes.
- [8] A firm only has one party committee. It may have several party general branches and party branches.
- [9] Although the reports in 2013 and 2014 were released solely by the ISC, the Information Center of the MIIT was among the principal providers of data for the elaboration of the reports. Other data providers include ChinaRank (not-for-profit platform affiliated to the ISC and purveyor of the ranking of websites depending upon their traffic data), Chinese private internet (e.g., Baidu, Bluetrum) and data firms (e.g., Wangsu Science & Technology, Bonree Data).
- [10] To improve data relevance, I excluded the 11 SOEs [10] from the database. Unlike private firms, SOEs are assets of the Chinese government and are obliged to create party cells. The 11 SOEs include CCTV, Xinhua, People.cn, Jiwei, Orient Pearl, Dong Fang Net, Mango TV, Inspur, Bianfeng Network, Ihicon, Migu.
- [11] Sunning Holdings Group is a special case. Suning Holdings Group was created in 2011. However, the brand of Suning appeared in 1990 as a seller of air-conditioners, and the first party cell of the firm was created in 1993. With the growth of its activities, in 2011, Suning became Suning Holdings Group. The latter figured among the top 100 internet firms in 2020.

## List of Abbreviations

BAT	Baidu, Alibaba, and Tencent
CAC	Cyberspace Administration of China
CCP	Chinese Communist Party
CCCCP	Central Committee of the CCP
CDO	Central Department of Organization
CDP	Central Department of Propaganda
CFIS	China Federation of Internet Societies
GO-CCCCP	General Office of the Central Committee of the CCP
IC-MIIT	Information Centre of the Ministry of Industry and Information Technology
IPO	Initial Public Offering
ISC	Internet Society of China
ISPCs	Internet Sector Party Committees
MIIT	Ministry of Industry and Information Technology
NCPB	National Conference on Party-Building in Non-Public Companies
NPPCC	National People’s Political Consultative Conference

PCs	People's Congresses
PPCCs	People's Political Consultative Conferences
SAMR	State Administration for Market Regulation
SCIO	State Council Information Office
SOEs	State-Owned Enterprises
TNOCs	Two New Organizations Committees

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