



SAYARI

China's Use of Golden Shares: A Mechanism for State Control and Influence

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Summary

In May of 2017, the Cyberspace Administration of China (CAC), China's nominal internet regulator fully under the control of the Chinese Communist Party (CCP), ordered all internet news information service providers to implement the "special management" system.¹ In the following years, the Chinese government utilized this system to exercise control and influence over Chinese technology companies involved in media and content.

For context, CAC was referencing previous guidance from Chinese President Xi Jinping in 2013 that had encouraged the use of "special management shares," which grants the state a degree of control over an entity while still encouraging private investment.² According to Xi's reform proposal, a government fund could take a small minority stake in a large media company or its subsidiary, and over time, the company could grow through foreign and domestic investment, competing on the global stage without the government losing all control and influence. Xi's objective was likely not intended to limit the power of private companies but to encourage a symbiotic relationship between the Party and China's burgeoning media and tech industries.³ Yet as tech companies such as Alibaba, ByteDance, and Tencent ballooned in size, with increasing influence over content and control of massive quantities of data, the CCP took action.⁴ It was in this environment that "special management shares," or "golden shares," became an increasingly important tool of Chinese state control.

When examining private businesses in China, it is easy to assume that control and influence are solely determined by majority ownership. However, Chinese law enables unique shareholding relationships that grant the state a disproportionate amount of control and influence over an ostensibly private entity. For large Chinese tech companies, being owned via golden shares can translate to government control over content, major investment decisions, and even outright veto power. The arrangement also often includes the appointment of a new director to implement policy, regardless of that individual's private sector expertise.

To date, the Chinese government has focused primarily on media and content entities, but the system could be extended to other industries. If so, this would have major implications for foreign investors and others concerned about Chinese state influence, export controls, outbound investment regulations, or other issues.

Case Study: Alibaba

One example of the Chinese government utilizing golden shares is in its relationship with Alibaba. In January 2023, CAC's fully owned fund, Online Investment Suicheng (Beijing) Technology Co., Ltd, obtained a 1% stake in Alibaba's subsidiary, Guangzhou Antler Information Technology Co., Ltd. CAC used the purchase to tighten control over content at the video streaming unit Youku and web browser UCWeb.⁵ Chinese corporate records also indicate that the subsidiary added a new director, Zhou Mo (周沫), who shares the same name as a mid-level official at CAC.⁶

1 互联网新闻信息服务管理规定. 互联网新闻信息服务管理规定—中共中央网络安全和信息化委员会办公室. (2017, May 2) http://www.cac.gov.cn/2017-05/02/c_1120902760.htm.

2 Wei, L. (2023, Mar. 8). China's New Way to Control Its Biggest Companies: Golden Shares. WSJ. <https://www.wsj.com/articles/xi-jinpings-subtle-strategy-to-control-chinas-biggest-companies-ad001a63>.

3 Ibid.

4 Ibid.

5 China moves to take 'golden shares' in Alibaba and Tencent units. (2023, Jan. 12). Financial Times. <https://www.ft.com/content/65e60815-c5a0-4c4a-bcec-4af0f76462de>.

6 Ibid.

Although there are no specific indicators in a Chinese corporate record that would explicitly identify a golden shares relationship, there are often clues. One is the commonly used 1% shareholding percentage, although golden shares are not limited to a specific percentage and can be any small, minority holding. Additionally, the sudden appointment of new officers, such as Zhou Mo, with previously no known affiliation to a company like Alibaba, may also suggest government involvement. With the case of Alibaba, one clue is Sayari Graph's "Owned by State-Owned Enterprise (SOE)" risk factor, which indicates that Online Investment Suicheng is ultimately owned by the state-owned CAC fund, China Internet Investment Fund Management Co., Ltd.

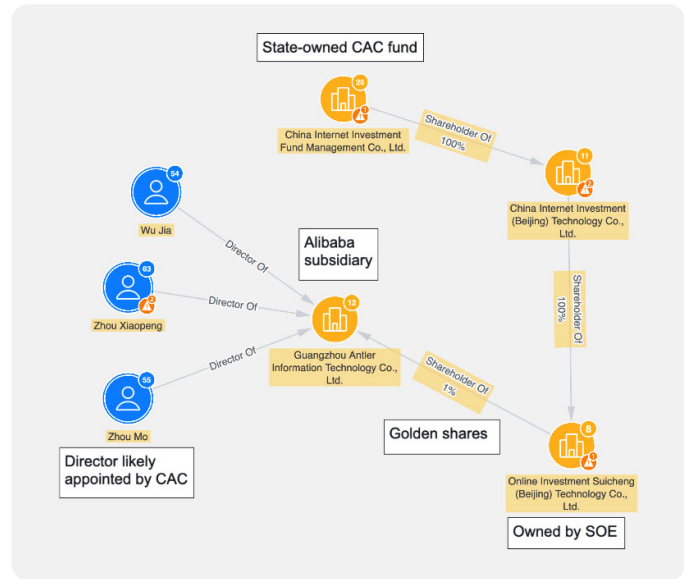


Fig 1. Sayari Graph image depicting CAC's use of golden shares to invest in Alibaba subsidiary

Case Study: ByteDance

In April 2021, Online Investment Chinese (Beijing) Technology Co., Ltd., owned in part by CAC's China Internet Investment (Beijing) Technology Co., Ltd, purchased a 1% stake in Beijing Douyin Information Service Co. Chinese corporate records indicate that Beijing Douyin had previously been named Beijing Bytedance Technology Co., Ltd.

Bytedance is the creator of video-sharing platforms TikTok, Douyin, and Toutiao, a news sharing platform. All platforms use unique algorithms to create content specific for its individual users. Due to the threat to U.S. national security, Tiktok, which is used by millions of Americans, has been heavily scrutinized by policymakers.

According to media reports, CAC's use of golden shares to purchase Beijing Douyin was in response to the Trump administration's attempt to force ByteDance to sell its U.S. TikTok business.⁷ As a result, the Chinese government took action to ensure control over TikTok's algorithm.⁸ The name change from Beijing Bytedance to Beijing Douyin may have also been an effort to obfuscate any corporate ties between ByteDance and the state.

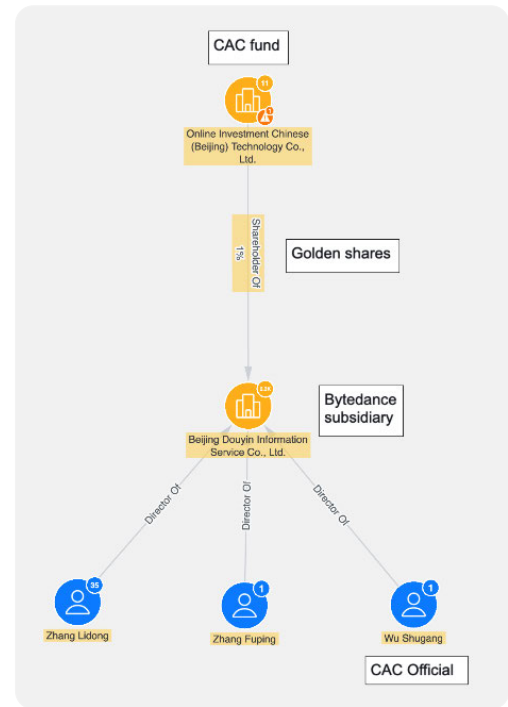


Fig 2. Wu Shugang joined Zhang Fuping, ByteDance's CCP committee secretary and editor-in-chief

7 Wei, L. (2023, Mar. 8). China's New Way to Control Its Biggest Companies: Golden Shares. WSJ. <https://www.wsj.com/articles/xi-jinpings-subtle-strategy-to-control-chinas-biggest-companies-ad001a63>.

8 Ibid.

Demonstrating the significance of this transaction, Beijing Douyin subsequently appointed Wu Shugang (吴述纲) as a director. Wu has extensive experience working for CAC and monitoring online commentary, and has provided various sessions for companies to ensure internet security and other issues were in line with party doctrine. According to the company charter, "Wu has a say over its 'business strategy and investment plans', any merger or acquisition, profit allocation and a vote on the group's top three executives as well as their remuneration packages."⁹

Case Study: Weibo

Chinese corporate records reveal that Sina Weibo, China's version of Twitter (X), is also owned in part by China Internet Investment Fund. In this case, CAC utilized Wangtou Tongda (Beijing) Technology Co., Ltd. to invest a 1% stake in Beijing Weimeng Chuangke Network Technology Co., Ltd, a domestic subsidiary of Sina Weibo. Wangtou Tongda, like Alibaba's CAC-affiliated owner, Online Investment Suicheng, are both fully owned by the China Internet Investment Fund.

When we build out Wangtou Tongda's relationships (shown in Figure 3 to the right), we can identify additional entities that have not been reported by the U.S. media. For example, one of Wangtou Tongda's directors, Wan Zhijiong (万智炯), shares the name of a director at CAC and lacks previous ties to Sina Weibo.¹⁰ Wang Yuan (王元), a supervisor for Wangtou Tongda, almost certainly has ties to CAC given his relationship to other similar entities. One of Wangtou Tongda's directors, Chen Yingzheng (陈颖峥), is also a financial manager for CAC's China Internet Investment (Beijing) Technology Co., Ltd.

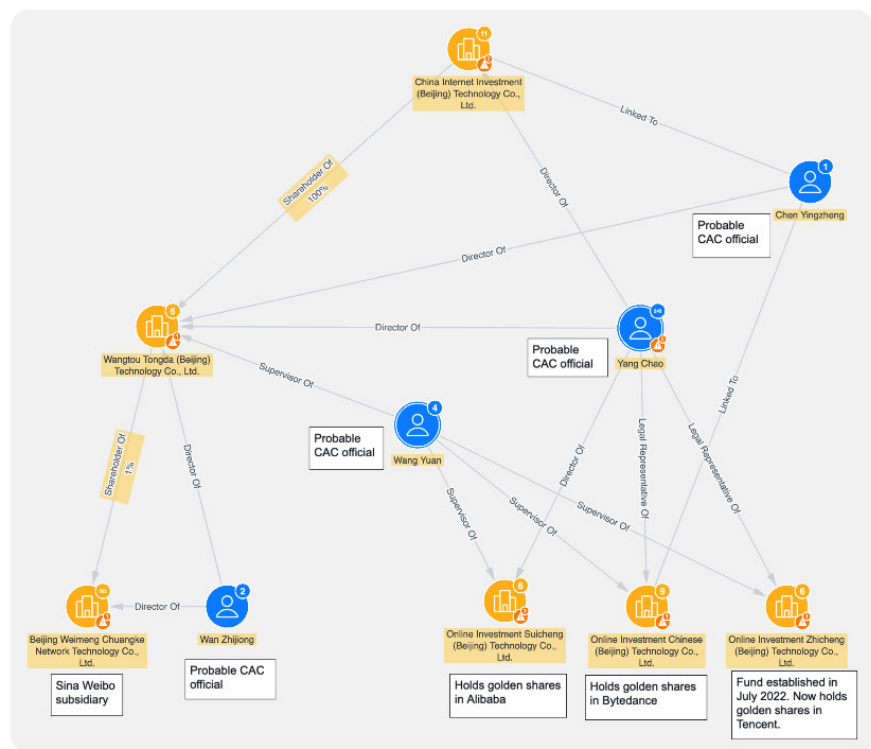


Fig 3. Sayari Graph image depicting the CAC's use of golden shares to invest in Weibo, Alibaba, Bytedance and Tencent subsidiaries

Another director with probable ties to CAC, Yang Zhao (杨昭), appears to have taken over for Wang Cunfu (汪存富) as director of Wangtou Tongda in June 2023. When we build out Yang's network (also Figure 3 above), we can see how this individual also exercises a degree of control over Alibaba and Bytedance funds. The above graph demonstrates how expanding a few relationships of a target entity, such as Wangtou Tongda, can reveal other previously unknown entities with ties to the Chinese regulator.

9 China moves to take 'golden shares' in Alibaba and Tencent units. (2023, Jan. 12). Financial Times. <https://www.ft.com/content/65e60815-c5a0-4c4a-bcec-4af0f76462de>.

10 TikTok 美高管承认中共企入股母公司. (2021, Nov. 9). <https://news.creaders.net/china/2021/11/09/2417937.html>.

One additional entity worth mentioning is Online Investment Zhicheng (Beijing) Technology Co., Ltd, which was established in July 2022. Similar to the other three CAC entities that hold golden shares in Alibaba, Bytedance, and Sina Weibo, this company also has ties to the same probable CAC officials: Wang Yuan is reported in Chinese public records as the company's supervisor, while Yang Zhao is listed as legal representative. Given these shared relationships, it is not surprising that the fund recently purchased golden shares in a Tencent subsidiary, Shenzhen Yayue Technology, in mid-October 2023.¹¹ Tencent is the largest video game company in the world and operator of the popular WeChat messaging platform.¹²

Case Study: Kuaishou

Recent developments suggest that China is using other state media entities to invest in golden shares. In late 2022, the Chinese government utilized Beijing Radio and Television Station, a Beijing-run television network, to purchase a 1% stake in Beijing Kuaishou Technology Co., Ltd. Kuaishou is another popular video platform company in China, second in size only to Douyin.

Around the same time, Beijing Kuaishou appointed a new director, Shi Yesen (史椰森), who shares the same name as a former executive at a Beijing Radio and Television Station subsidiary.¹³ Notably, use of a television network fund was in contrast to the other examples in which China had used the China Internet Investment Fund. This suggests that the Chinese government may choose the controlling entity based on the affiliation of its hand-picked director.

Conclusion

When analyzing Chinese corporate relationships, it is important to obtain a nuanced understanding of Chinese corporate governance. This requires an awareness of non-traditional methods of ownership and control, which includes the Chinese government's recent use of golden shares.

In our analysis, we identified entities tied to government holdings of large technology companies that have not been reported in the press, and highlighted certain indicators to look for that might help identify a golden shares relationship. These include a 1% stake, upstream ties to a state-run entity, and the appointment of influential directors with connections to government regulators or media outlets.

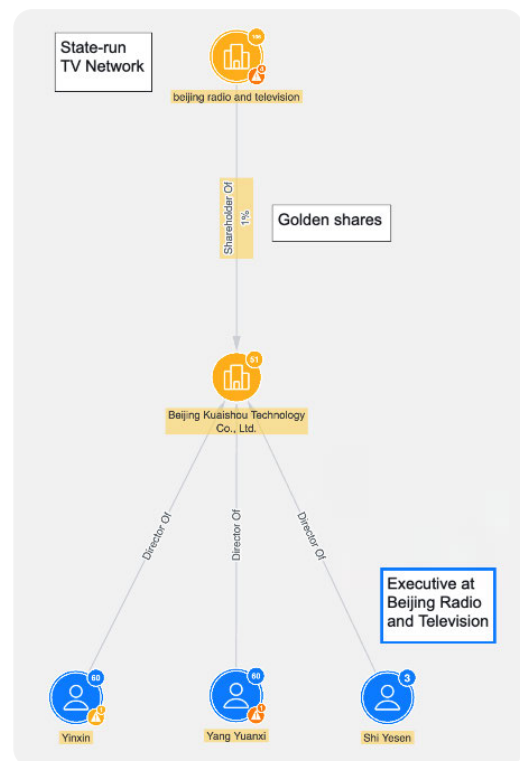


Fig 4. Sayari Graph image depicting Beijing's stake in Kuaishou

11 China's Kuaishou says state broadcaster has no veto rights over business. Reuters (2022, Nov. 9). <https://www.reuters.com/markets/deals/chinas-kuaishou-says-state-broadcaster-has-no-veto-decisions-2022-11-09/>.

12 Ibid.

13 Ibid.

Despite these indicators, there are no exact attributes in corporate records that help to identify previously unreported golden share holdings. Furthermore, variations remain regarding what government fund is used, the fund's relationship to its parent government entity, and the role and responsibilities of the hand-picked government director. What is certain, however, is the Chinese government's efforts to keep the voice of the CCP at the forefront of society, and actions to tame large companies through golden shares appear to be in line with this objective.