

The family fortunes of Beijing's new few

China As the wealth of the 'princelings' grows, so too do fears that parts of the faltering economy are being run to profit a political elite. *FT Reporters* investigate the business activities of party leaders' relatives

Visibly uncomfortable in his ill-fitting military uniform, Mao Xinyu speaks in slow, almost childlike sentences as he describes the difficulties of being a direct descendant of Mao Zedong.

"I have a lot of pressure in my life because the Chinese people, the ordinary folk, put their deep love for Chairman Mao on to me," he says. "They really don't want me to lose face for my granddad," he adds, while gesturing a chubby arm at the minders who hover over him, adjusting his suit or telling him to sit up straight.

As well as being the only surviving grandson of the dictator who ruled over one-fifth of humanity for nearly three decades, the 42-year-old is the youngest major general in the history of the People's Liberation Army.

Despite having a learning disability – according to people who know him well – he holds advanced degrees from some of China's leading military and civilian institutions, and is deputy head of the war theory and strategic studies department of the PLA academy of military sciences, an important sinecure.

Gen Mao has publicly acknowledged his many achievements and thanks largely to his background, but he does not enjoy a large personal fortune, according to people familiar with the matter, and has criticised rampant corruption among the progeny of other powerful Communist families. "Look at our family – among all those descendants of the chairman can you find anyone who is an official or does business? You can't even find one," he said in an interview with state media in March.

In reality, it is the very fact that he and his family are not known to have

'In the 1990s leaders at least tried to moderate their princelings as they got rich but now there is no restraint'



Mao Zedong: the chairman's grandson is critical of today's elite Mary Evans

amassed great wealth that is perhaps the most striking difference between Gen Mao and other "princelings", as the offspring of senior party officials are known. The other recognised descendants of the chairman all hold relatively minor positions in government or military-related institutes and think-tanks.

Gen Mao's implicit criticism of his peers highlights a phenomenon party insiders say has become much worse in the past decade, and has been forced into the spotlight with the downfall this year of Bo Xilai, previously ranked 25th in the ruling party hierarchy. In a system that still calls itself communist but thrives on cut-throat capitalism, a group of powerful political families and their hangers-on have become fabulously wealthy while ignoring the rules and laws they set for the rest of society.

Their enormous fortunes are becoming impossible to hide in the era of social media, contributing to a sense among an increasingly informed public that a small class of well-connected people is running the economy for its own benefit. As social mobility decreases and growth slows, many in China and abroad are expressing fears that the country's semi-feudal system of patronage is ill-suited to the management of a complex economy that is now the world's second largest.

On Monday, in a thinly veiled criticism of Beijing, Hillary Clinton, US secretary of state, voiced these concerns in a speech criticising governments that strive to "usurp the rights of citizens to choose their leaders, to govern without accountability, to corrupt the economic progress of the country and take the riches unto themselves".

Since the fall of the Soviet Union, party theorists have pointed to corrupt oligarchs and widening wealth disparity as an example of the dangers of rapid political liberalisation. But with Chinese income inequality now worse than that of almost any big economy, and a large portion of the nation's wealth concentrated in the hands of a few families, many are today questioning whether things at home are really so different.

"The corruption in China is more severe than at any time in history and what we have today is a market economy ruled by power – every business activity needs assistance or approval

from people with power," says Yang Jisheng, a veteran party member, journalist for state media organisations and author. "Say your father is the provincial governor, one word from you might mean government approval for my real estate deal followed by several hundred million [renminbi], so what's the big deal if I give you Rmb100m [\$15.7m] back?"

While Gen Mao has clearly benefited from his lineage, in princeling circles he is mostly seen as an embarrassing joke, and has nothing like the kind of wealth accrued by Mr Bo's disgraced family.

According to public records, the extended Bo family controls shareholdings in listed Chinese companies worth well over \$100m, and people close to the family say their actual fortune is much larger.

But in April, in the most spectacular political purge since the 1989 Tiananmen Square massacre, Mr Bo was removed from his positions and placed under investigation for unspecified "serious discipline violations".

His downfall appears to be closely linked to charges brought against his wife, Gu Kailai, detained and accused of murdering British businessman Neil Heywood last November. Until a

few years ago she was a practising lawyer who, friends and business associates say, used her husband's position to accumulate a fortune. His official salary as a senior party leader was no more than \$20,000 a year.

As a rising political star, Mr Bo benefited from the fact that his father was Bo Yibo, a revolutionary general who fought alongside Mao and was one of the "eight immortal" party elders who ran China from behind the scenes in the 1980s and 1990s.

Meanwhile, Bo Xilai's 24-year-old son, Bo Guagua, studied at elite western institutions including Harrow, Oxford and Harvard, drives expensive sports cars and is believed still to be living in the US with the help of a family fortune, according to friends.

No formal charges of corruption have been levelled against anyone in the family, and senior advisers to the leadership say they believe the case against Mr Bo and his wife will not dwell on how they grew so rich. This is mainly because the party is concerned about drawing attention to wealth amassed by other leading families, revolving around a core of about 100 military and civilian households.

"Powerful political families have come to control vast swaths of the

Chinese economy in an environment where there is no separation of powers, no independent judiciary or media and the government sits astride everything," says Professor Andrew Nathan of Columbia University, co-editor of *The Tiananmen Papers*, a collection of leaked secret documents detailing top-level decision-making during the student protests. "The law is controlled by the Communist party so whoever controls the party can use the law for whatever they want – these people are far above the law."

Crisis of legitimacy

The personal lives, business dealings and assets of senior officials and their relatives are considered state secrets. The internet and media censorship regime goes to great lengths to block all related information.

In a sign of increasing concern about public views of the political elite, the party held annual press conferences between 2006 and 2010 to re-announce plans to require senior cadres to disclose their assets and those of their relatives. But each conference ended with the party insisting that the "time is not ripe", and that "further study must be conducted" before fully introducing such a measure.

Even without official disclosures, the downfall of Mr Bo has given the Chinese a glimpse of how their rulers have enriched themselves and awareness is growing of just how privileged the political elite really is. An investigation into the activities of other political families reveals a web of vast and tangled dealings similar to that controlled by the Bo family. Virtually every member of the party's nine-member politburo standing committee, the elite group that rules the country, has relatives involved in businesses that rely heavily on state approvals and support.

"In the 1990s most senior leaders at least tried to moderate their princelings as they got rich but now there is almost no restraint and it has got out of control," says a leading Chinese financier with close ties to the party leadership. "This is the single biggest test of the legitimacy of the party."

For example, Li Tong, the daughter of Chinese propaganda and media tsar Li Changchun, who ranks fifth in the politburo standing committee, runs a large investment fund at Bank of

Wen Jiabao

'If the premier's son is bidding for a deal, we wouldn't even try'

In an editorial entitled "Make power come out into the sunlight", published in an official journal in April, premier Wen Jiabao railed against rampant corruption in the Communist party.

"We must seriously implement a system for leaders and cadres to report their personal [financial] situations and strengthen the management of their spouses and children who have emigrated overseas," he wrote. "The biggest risk to the ruling party is corruption."

"Grandpa" Wen, as he likes to be called, is one of the most vocal opponents of official graft. He goes to great lengths to cultivate the image of a clean, humble cadre devoted to serving the people.

But of all the families of senior party officials, his is the most notorious for

its extensive business activities, and the advantage it has allegedly taken of his position at the pinnacle of power. His wife, Zhang Beili, is a businesswoman in the diamond and gem industry with a penchant for expensive jewellery.

His son, Winston, is one of the most powerful private equity investors in China. New Horizon Capital, the private equity firm he founded, which has raised about \$2.5bn, says he no longer works there in a formal capacity but people who know him well say he is still very involved and has not divested the large personal fortune he holds in the firm's funds.

"Winston blatantly uses his political background to get deals," one of the most well-connected private equity investors operating in China told the *Financial Times*. "If Winston is bidding

for a deal we wouldn't even try – we try to avoid competing with the big princelings."

Many of New Horizon's investments are made in companies preparing to list on China's stock exchanges or awaiting approval from the government to do so, raising questions about what exactly the firm brings to the table besides money. It has invested in dozens of domestic companies in a broad range of sectors, including wind power, retail, pharmaceuticals and manufacturing.

According to people with ties to the Wens, the premier is not close to his wife or son and almost never appears publicly with them. These people say that is because he wants to make clear he is not part of the family business.

"The problem these leaders have is they can't prevent family members

using their political influence to do business – in this top-down, opaque system that's impossible," says one party member with close ties to leading political families.

No matter how Mr Wen tries to distance himself from his relatives' activities, his enemies are quick to point out the hypocrisy of his rhetoric – which makes curbing similar behaviour in party ranks even harder.

"The party sets itself up as a defender and protector of virtue, and tries to convince people that in a terribly corrupt system those at the top are clean and upright," says a former diplomat who worked for decades on China and knows many princelings personally. "But that is just not the case – the rot goes right to the top."

China International that focuses its investments in the media industry.

One of the biggest and most successful homegrown private equity funds in China, New Horizon Capital, was founded by Winston Wen, son of premier Wen Jiabao, who often publicly rails against official corruption.

Mr Wen's wife, Zhang Beili, is deeply involved in the country's diamond and jewellery industry and is known for extravagant tastes that contrast sharply with Mr Wen's public image as a humble public servant.

Wu Bangguo, second in the party hierarchy, has several relatives active in investment management, property development and construction. His son-in-law, Feng Shaodong is chief executive of China Guangdong Nuclear Industry Investment, a fund management company set up in 2009 by a giant, state-owned nuclear company. He previously worked as head of Merrill Lynch's investment banking arm in China, where former colleagues and competitors say he almost single-handedly won the mandate to underwrite the 2006 Hong Kong offering of Industrial and Commercial Bank of China in the world's biggest initial public offering at the time.

Golden pedigree

Like Mr Feng, many princelings have been recruited to work for western banks or other multinationals, which recognise the advantages of fostering close relationships with senior leaders through their relatives.

"The longer you stay in China the more you realise that everything is controlled by a couple of hundred powerful families," says one veteran foreign diplomat who specialises in elite Chinese politics. "You also realise that most major foreign companies are trying to hire the sons and daughters of Chinese officials so they can get access and do business."

Some of the princelings, many of whom are educated at leading universities in China and the west, are highly capable in their own right. Some even complain they are discriminated against because of their powerful family backgrounds and because everybody assumes all their achievements are based on nepotism rather than talent.

However, the chief executives of three multinationals with decades of experience operating in China told the *Financial Times* that engaging relatives of senior officials as consultants or as joint venture partners was standard practice – and, in fact, vital in many industries. They said these princelings usually preferred to hold stakes in joint ventures through a holding company in Hong Kong or the Caribbean, where Chinese anti-corruption investigators cannot find them.

Consulting fees are often paid in places such as Dubai or Hong Kong, and agreements are frequently written on red paper because photocopies or scans show up black, making it harder for them to be circulated widely, these people said. In some cases, these relatives are introduced as highly paid consultants at the end of the negotiation process, and their sudden appearance is usually taken as a sign that the deal will go ahead.

These chief executives and others said that, as China's economy has grown and the opportunities for enrichment have multiplied, it has become much harder for foreign companies to recruit or gain access to the relatives of the most senior officials. "These days, a foreign bank would be lucky to get a kid whose father was a vice-minister," said one senior executive at a western bank in China. "The big families want to go into private equity or do business themselves because that's where the real money is."

Some people, including many princelings themselves, defend the actions of officials and their relatives, and place a large part of the blame for the rampant corruption, nepotism and influence-peddling on the system rather than on individuals. They argue, as does Gen Mao, that much of the privilege and wealth they accrue is forced on them by others hoping to take advantage of their pedigree.

"It doesn't matter if an official's son is well-behaved or not – even if you sit tight at home, people will knock on your door and give you money and businesses will offer you a sinecure," says Mr Yang. "Your name is the shortcut to getting bank loans, land and other resources. This is caused by the bad system, not necessarily by princelings themselves."

From last emperor ...

1911

Puyi, China's last emperor, overthrown in revolution

1949

Communist leader Mao Zedong declares founding of People's Republic of China after winning civil war

1958

Mao's Great Leap Forward begins, sparking widespread famine in following years

1966

Mao launches cultural revolution, leading to anarchy throughout China

1976

Mao dies, signalling official end to cultural revolution

1979

Revolutionary veteran Deng Xiaoping launches economic reforms and opens up China to outside world