Panama Papers highlight nexus between wealth and power in China

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The "Panama Papers" released by the International Consortium of Investigative Journalists (ICIJ) on Sunday have further exposed the intimate connections between the Chinese Communist Party (CCP) apparatus and members of the ultra-rich elite who have profited from the processes of capitalist restoration in China since the 1970s.

Among those implicated in using the services of Panamanian law firm, Mossack Fonseca, to establish secretive offshore companies are close relatives of eight current and former CCP leaders. They include President Xi Jinping and two of the six other members of the Politburo Standing Committee, the party's top decision-making body, Zhang Gaoli and Liu Yunshan.

Mossack Fonseca has made a fortune by assisting its super-wealthy clients evade taxes and disguise their business operations by establishing shell companies in tax havens such as the British Cayman Islands. Its operations in China have mushroomed as its economy boomed, creating a tiny stratum of billionaires and multi-millionaires who have accumulated immense wealth at the expense of the working class, and increasingly through parasitic speculation in property and shares.

The ICIJ analysis of the leaked documents shows that China and Hong Kong account for nearly a third of Mossack Fonseca's global business. Chinese and Hong Kong clients are linked to some 40,000 shell companies past and present, with a quarter of those, or nearly 10,000 companies, still in active use. The firm set up a Hong Kong office in 1989, expanded into the Chinese mainland in 2000 and currently has branch offices in eight Chinese cities. Hong Kong is now the company's busiest office and China its biggest market.

With the economic slowdown in China, the wealthy elites appear to be accelerating the transfer of funds out of the country, including to offshore safe havens. According to a BBC article entitled "Panama Papers: How China's wealth is sneaked abroad," around $1 trillion left China last year, of which an estimated $600 billion flouted Chinese banking controls. A Chinese citizen is limited to transferring $50,000 a year outside the country.

The major American and European newspapers associated with the ICIJ consortium have focussed considerable attention on President Xi and other top Chinese leaders, along with Russian President Vladimir Putin and his close associates. The choice of targets is hardly accidental. In the case of Xi, the coverage of his family connections to Mossack Fonseca is aimed at undermining a figure who is increasingly regarded as a threat to US interests.

Within China, the nexus between the top CCP leadership and the ultra-rich is a highly sensitive issue. Xi has sought to build popular political support, as well as crush his factional rivals, through a sweeping anti-corruption campaign that he boasted would catch both "tigers and flies." Last year alone, the campaign reportedly netted more than 300,000 officials at all levels of the bureaucracy. If Xi or his close political associates were shown to be directly involved in corrupt operations involving offshore shell companies, it could provoke a serious political crisis in Beijing.

As a result, there is a virtual total blackout in the Chinese media and web sites of the Panama Papers scandal, especially any reference to Chinese leaders. An editorial in the state-owned *Global Times* on Tuesday suggested that the ICIJ "document dump" might contain deliberately planted disinformation, and, in any case, was being managed by the Western media "to strike a blow to non-Western political elites and key organisations." The commentary noted that a close friend of Putin had been named, but made no mention that Xi and other Chinese leaders had been implicated.

While the Western coverage is certainly slanted, the ICIJ evidence is a damning exposure of the operations of the political and business elites, not only in China, but around the world. Three decades of capitalist restoration in China have spawned a capitalist class that, like its international counterparts, is engaged in all manner of dubious financial practices to maximise and protect its fortunes.

The ICIJ reports make no suggestion that Xi and other Chinese leaders are directly involved in corrupt financial dealings. It is not illegal for individuals in China to establish offshore shell companies that have legitimate commercial uses. The CCP, however, does bar party members from setting up such companies. As a result, a pattern has emerged. Clustered around powerful political figures such as Xi are close family members who have built up highly profitable businesses, drawing indirectly or directly on the political influence and protection of their ties.

Xi's brother-in-law Deng Jiagui was specifically named as having used the services of Mossack Fonseca to set up three offshore companies in the British Virgin Islands for purposes unknown. Deng is married to Xi's older sister Qi Qiaoqiao. Their considerable wealth and business connections have been the subject of other exposés, including an extended *Bloomberg* article in 2012, which listed investments in companies with assets of $376 million and an indirect 18 percent stake in a rare-earths company worth $1.7 billion.

A *New York Times* article last year linked Deng and his wife to China's wealthiest man, Wang Jianlin, a real estate and entertainment tycoon, worth an estimated $35 billion. Qi was one of a handful of select investors who were allowed to privately buy a stake in Wang's real estate division, Dalian Wanda Commercial Properties, paying $28.6 million for shares that were worth $240 million last year. The couple transferred their stake to a close business partner in 2013 as part of divesting themselves of their most public assets—in large measure to avoid embarrassing Xi who was installed in office in the same year.

During his rise, Xi lectured officials at an anti-corruption conference in 2004 to "rein in your spouses, children, relatives, friends and staff, and vow not to use power for personal gain." Such injunctions were never meant to be taken too literally. Rather, they constitute warnings that the ostentatious display of obscene wealth, as the gulf deepens between rich and poor, is fuelling public hostility, anger and opposition. While the wealthy count their fortunes in millions and billions of dollars, many workers struggle to survive on an official minimum monthly wage varying from $185 to $355.

Offshore shell companies are clearly one way of shielding assets and business operations from public view.

Other individuals who are well connected politically and were named in yesterday's ICIJ report include:

* Jia Liqing, the daughter-in-law of CCP Politburo Standing Committee member Liu Yunshan. She was identified as the director and shareholder of Ultra Time Investments, which was incorporated in the British Virgin Islands in 2009.

* Lee Shing Put, who is married to the daughter of Vice Premier Zhang Gaoli, another member of the Politburo Standing Committee. An executive with Xinyi Glass, Lee was named as the shareholder in three companies incorporated in the British Virgin Islands.

* Chen Dongsheng, the grandson-in-law of Mao Zedong. He incorporated a company in the British Virgin Islands in 2011 and was its sole director. Chen, a businessman, is chief executive of Taikang Life Insurance and the founder of China Guardian Auctions.

* Hu Dehua, the son of former CCP chairman Hu Yaobang. He was identified as a shareholder, director and beneficial owner of a British Virgin Islands company set up in 2003.

* Li Xiaolin, daughter of former Chinese Premier Li Peng. She owns a British Virgin Islands company incorporated in 1994. She and her husband previously owned the same firm via bearer shares, which are deliberately designed to disguise ownership.