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‘Princelings’ in China Use Family Ties to Gain Riches

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SHANGHAI — The Hollywood studio DreamWorks Animation recently announced a bold move to crack China’s tightly protected film industry: a $330 million deal to create a Shanghai animation studio that might one day rival the California shops that turn out hits like “Kung Fu Panda” and “The Incredibles.”

What DreamWorks did not showcase, however, was one of its newest — and most important — Chinese partners: Jiang Mianheng, the 61-year-old son of Jiang Zemin, the former Communist Party leader and the most powerful political kingmaker of China’s last two decades.

The younger Mr. Jiang’s coups have included ventures with Microsoft and Nokia and oversight of a clutch of state-backed investment vehicles that have major interests in telecommunications, semiconductors and construction projects.

That a dealmaker like Mr. Jiang would be included in an undertaking like that of DreamWorks is almost a given in today’s China. Analysts say this is how the Communist Party shares the spoils, allowing the relatives of senior leaders to cash in on one of the biggest economic booms in history.

As the scandal over Bo Xilai continues to reverberate, the authorities here are eager to paint Mr. Bo, a fallen leader who was one of 25 members of China’s ruling Politburo, as a rogue operator who abused his power, even as his family members accumulated a substantial fortune.

But evidence is mounting that the relatives of other current and former senior officials have also amassed vast wealth, often playing central roles in businesses closely entwined with the state, including those involved in finance, energy, domestic security, telecommunications and entertainment. Many of these so-called princelings also serve as middlemen to a host of global companies and wealthy tycoons eager to do business in China.

“Whenever there is something profitable that emerges in the economy, they’ll be at the front of the queue,” said Minxin Pei, an expert on China’s leadership and professor of government at Claremont McKenna College in California. “They’ve gotten into private equity, state-owned enterprises, natural resources — you name it.”

For example, Wen Yunsong, the son of Prime Minister Wen Jiabao, heads a state-owned company that boasts that it will soon be Asia’s largest satellite communications operator.

President Hu Jintao's son, Hu Haifeng, once managed a state-controlled firm that held a monopoly on security scanners used in China's airports, shipping ports and subway stations. And in 2006, Feng Shaodong, the son-in-law of Wu Bangguo, the party's second-ranking official, helped Merrill Lynch win a deal to arrange the $22 billion public listing of the giant state-run bank I.C.B.C., in what became the world's largest initial public stock offering.

Much of the income earned by families of senior leaders may be entirely legal. But it is all but impossible to distinguish between legitimate and ill-gotten gains because there is no public disclosure of the wealth of officials and their relatives. Conflict-of-interest laws are weak or nonexistent. And the business dealings of the political elite are heavily censored in the state-controlled news media.

The spoils system, for all the efforts to keep a lid on it, poses a fundamental challenge to the legitimacy of the Communist Party. As the state's business has become increasingly intertwined with a class of families sometimes called the Red Nobility, analysts say the potential exists for a backlash against an increasingly entrenched elite. They also point to the risk that national policies may be subverted by leaders and former leaders, many of whom exert influence long after their retirement, acting to protect their own interests.

Chinese officials and their relatives rarely discuss such a delicate issue publicly. The New York Times made repeated attempts to reach public officials and their relatives for this article, often through their companies. None of those reached agreed to comment on the record.

DreamWorks and Microsoft declined to comment about their relationship with Mr. Jiang.

A secret United States State Department cable from 2009, released two years ago by the WikiLeaks project, cited reports that China's ruling elite had carved up the country's economic pie. At the same time, many companies openly boast that their ties to the political elite give them a competitive advantage in China's highly regulated marketplace.

A Chinese sportswear company called Xidelong, for example, proudly informed some potential investors that one of its shareholders was the son of Wen Jiabao, according to one of the investors. (A private equity firm, New Horizon, that the son, Wen Yunsong helped found invested in the company in 2009, according to Xidelong's Web site.) "There are so many ways to partner with the families of those in power," said one finance executive who has worked with the relatives of senior leaders. "Just make them part of your deal; it's perfectly legal."

Worried about the appearance of impropriety and growing public disgust with official corruption, the Communist Party has repeatedly revised its ethics codes and tightened financial disclosure rules. In its latest iteration, the party in 2010 required all officials to report the jobs, whereabouts and investments of their spouses and children, as well as their own incomes. But the disclosure reports remain secret; proposals to make them public have been shelved repeatedly by the party-controlled legislature.

The party is unlikely to move more aggressively because families of high-ranking past and current officials are now deeply embedded in the economic fabric of the nation. Over the past two decades, business and politics have become so tightly intertwined, they say, that the Communist Party has effectively institutionalized an entire ecosystem of crony capitalism. “They don’t want to bring this into the open,” said Roderick MacFarquhar, a China specialist at Harvard University. “It would be a tsunami.”

Critics charge that powerful vested interests are now strong enough to block reforms that could benefit the larger populace. Changes in banking and financial services, for instance, could affect the interests of the family of Zhu Rongji, China’s prime minister from 1998 to 2003 and one of the architects of China’s economic system. His son, Levin Zhu, joined China International Capital Corporation, one of the country’s biggest investment banks, in 1998 and has served as its chief executive for the past decade.

Efforts to open the power sector to competition, for example, could affect the interests of relatives of Li Peng, a former prime minister. Li Xiaolin, his daughter, is the chairwoman and chief executive of China Power International, the flagship of one of the big five power generating companies in China. Her brother, Li Xiaopeng, was formerly the head of another big power company and is now a public official.

“This is one of the most difficult challenges China faces,” said Mr. Pei, an authority on China’s leadership. “Whenever they want to implement reform, their children might say, ‘Dad, what about my business?’ ”

There are also growing concerns that a culture of nepotism and privilege nurtured at the top of the system has flowed downward, permeating bureaucracies at every level of government in China. “After a while you realize, wow, there are actually a lot of princelings out there,” said Victor Shih, a China scholar at Northwestern University near Chicago, using the label commonly slapped on descendants of party leaders. “You’ve got the children of current officials, the children of previous officials, the children of local officials, central officials, military officers, police officials.We’re talking about hundreds of thousands of people out there — all trying to use their connections to make money.”

To shore up confidence in the government’s ability to tackle the problem, high-ranking leaders regularly inveigh against greedy officials caught with their hand in the till. In 2008, for instance, a former Shanghai Party secretary, Chen Liangyu, was sentenced to 18 years in prison for bribery and abuse of power. One of his crimes was pressing businessmen to funnel benefits to his close relatives, including a land deal that netted his brother, Chen Liangjun, a $20 million profit.

But exposés in the foreign press — like the report in 2010 that Zeng Wei, the son of China’s former vice president Zeng Qinghong, bought a $32 million mansion in Sydney, Australia — are ignored by the Chinese-language news media and blocked by Internet censors.

Allegations of bribery and corruption against the nation’s top leaders typically follow — rather than precede — a fall from political grace. Mr. Bo’s downfall this spring, for instance, came after his former police chief in Chongqing told American diplomats that Mr. Bo’s wife, Gu Kailai, had ordered the murder of Neil Heywood, a British businessman, in a dispute over the family’s business interests.

Evidence has surfaced of at least $160 million in assets held by close relatives of Bo Xilai, and the authorities are investigating whether other assets held by the family may have been secretly and illegally moved offshore.

Wen Jiabao, the prime minister, responded by demanding a more forceful crackdown on corruption. Without naming Mr. Bo by name, People's Daily, the official Communist Party newspaper, denounced fortune seekers who stain the party's purity by smuggling ill-gotten gains out of the country.

Some scholars argue that the party is now hostage to its own unholy alliances. Cheng Li, an expert on Chinese politics with the Brookings Institution in Washington, said it would be difficult for the Chinese government to push through major political reforms aimed at extricating powerful political families from business without giving immunity to those now in power.

And with no independent judiciary in China, he said, party leaders would essentially be charged with investigating themselves. "The party has said anticorruption efforts are a life-and-death issue," Mr. Li said. "But if they want to clean house, it may be fatal."

Chinese tycoons have also been quietly welcomed into the families of senior leaders, often through secret partnerships in which the sons, daughters, spouses and close relatives act as middlemen or co-investors in real estate projects or other deals that need government approval or backing, according to investors who have been involved in such transactions.

Moreover, China's leading political families, often through intermediaries, hold secret shares in dozens of companies, including many that are publicly listed in Hong Kong, Shanghai and elsewhere, according to interviews with bankers and investment advisers. Lately, the progeny of the political elite have retooled the spoils system for a new era, moving into high-finance ventures like private equity funds, where the potential returns dwarf the benefits from serving as a middleman to government contracts or holding an executive post at a state monopoly.

Jeffrey Zeng, the son of the former Politburo member Zeng Peiyan, is a managing partner at Kaixin Investments, a venture-capital firm set up with two state-owned entities, China Development Bank and Citic Capital. Liu Lefei, the son of another Politburo member, Liu Yunshan, helps operate the $4.8 billion Citic Private Equity Fund, one of the biggest state-managed funds. Last year, Alvin Jiang, the grandson of former president Jiang Zemin, the former Communist Party leader and president, helped establish Boyu Capital, a private equity firm that is on its way to raising at least $1 billion.

Most recently, with the Communist Party promising to overhaul the nation's media and cultural industries, the relatives of China's political elite are at the head of the crowd scrambling for footholds in a new frontier.

The February announcement of the deal between DreamWorks and three Chinese partners, including Shanghai Alliance Investment, was timed to coincide with the high-profile visit to the United States of Xi Jinping, China's vice president and presumptive next president. The news release did not mention that Shanghai Alliance is partly controlled by Jiang Zemin's son Jiang

Mianheng. A person who answered the telephone at the Shanghai Alliance office here declined to comment.

Zeng Qinghuai, the brother of Zeng Qinghong, China's former vice president, is also in the film business. He served as a consultant for the patriotic epic "Beginning of the Great Revival." The film exemplified the hand-in-glove relationship between business and politics. It was shown on nearly 90,000 movie screens across the country. Government offices and schools were ordered to buy tickets in bulk. The media was banned from criticizing it. It became one of last year's top-grossing films.

Scholars describe the film industry as the new playground for princelings. Zhang Xiaojin, director of the Center of Political Development at Tsinghua University, said, "There are cases where propaganda department officials specifically ask their children to make films which they then approve."

Zhao Xiao, an economist at the University of Science and Technology in Beijing, said, "They are everywhere, as long as the industry is profitable."

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