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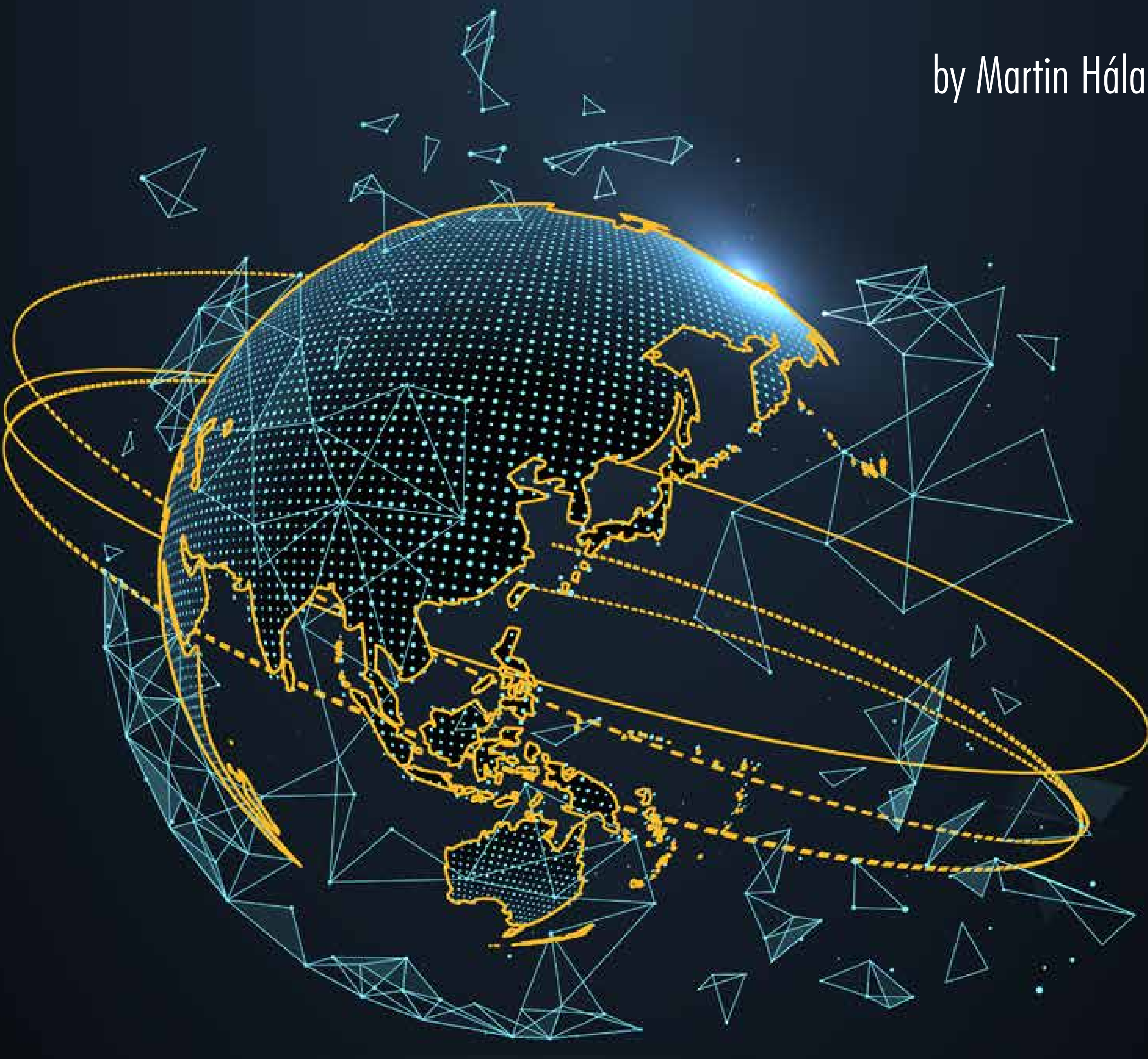
SHARP POWER AND DEMOCRATIC RESILIENCE SERIES

A New Invisible Hand

Authoritarian Corrosive Capital and the Repurposing of Democracy

by Martin Hála



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ABOUT THE SHARP POWER AND DEMOCRATIC RESILIENCE SERIES

As globalization deepens integration between democracies and autocracies, the compromising effects of sharp power—which impairs free expression, neutralizes independent institutions, and distorts the political environment—have grown apparent across crucial sectors of open societies. The Sharp Power and Democratic Resilience series is an effort to systematically analyze the ways in which leading authoritarian regimes seek to manipulate the political landscape and censor independent expression within democratic settings, and to highlight potential civil society responses.

This initiative examines emerging issues in four crucial arenas relating to the integrity and vibrancy of democratic systems:

- Challenges to free expression and the integrity of the media and information space
- Threats to intellectual inquiry
- Contestation over the principles that govern technology
- Leverage of state-driven capital for political and often corrosive purposes

The present era of authoritarian resurgence is taking place during a protracted global democratic downturn that has degraded the confidence of democracies. The leading authoritarians are challenging democracy at the level of ideas, principles, and standards, but only one side seems to be seriously competing in the contest.

Global interdependence has presented complications distinct from those of the Cold War era, which did not afford authoritarian regimes so many opportunities for action within democracies. At home, Beijing, Moscow, and others have used twenty-first-century tools and tactics to reinvigorate censorship and manipulate the media and other independent institutions. Beyond their borders, they utilize educational and cultural initiatives, media outlets, think tanks, private sector initiatives, and other channels of engagement to influence the public sphere for their own purposes, refining their techniques along the way. Such actions increasingly shape intellectual inquiry and the integrity of the media space, as well as affect emerging technologies and the development of norms. Meanwhile, autocrats have utilized their largely hybrid state-capitalist systems to embed themselves in the commerce and economies of democracies in ways that were hardly conceivable in the past.

The new environment requires going beyond the necessary but insufficient tools of legislation, regulation, or other governmental solutions. Democracies possess a critical advantage that authoritarian systems do not—the creativity and solidarity of vibrant civil societies that can help safeguard institutions and reinforce democratic values. Thus, the papers in this series aim to contextualize the nature of sharp power, inventory key authoritarian efforts and domains, and illuminate ideas for non-governmental action that are essential to strengthening democratic resilience.

ABOUT THE AUTHOR

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EXECUTIVE SUMMARY

The vexing challenge of authoritarian sharp power linked to capital flows has no clear precedent in previous competition between democracy and autocracy. Authoritarian corrosive capital has the effect of compromising democratic processes and institutions—with far-reaching consequences for vulnerable open societies.

After almost three decades of global economic integration, it is clear that private enterprise and international trade do not operate according to the same rules in authoritarian states. Instead, illiberal regimes like those in Russia and China use capital as a foreign policy tool and often as a form of strategic corruption to bolster authoritarianism as a globally competitive governance system. Authoritarian corrosive capital typically hides amid layers of larger exchanges with authoritarian regimes, the majority of which may appear legitimate and can have a financial, political, or cultural character. These funds target critical institutions and key individuals in open societies as a way to repurpose them into instruments of foreign interference. Crucially, they need not be large sums to have a corrosive effect.

Corrosive capital and strategic corruption differ from other forms of corruption in that they are backed, and sometimes orchestrated, by a state power for political rather than economic goals—or to advance a comprehensive authoritarian agenda with inseparable political and economic objectives.

Through the lens of the Czech Republic's experience, this report explores the issue of authoritarian corrosive capital, and outlines what an interconnected, interdisciplinary, and international response from civil society could look like. The legacy of one Chinese firm's engagement in the Czech Republic vividly illustrates how corrosive capital from technically private Chinese companies can undermine democratic institutions in target countries.

Without strong accountability, transparency, and oversight mechanisms, the adverse impacts of such sharp power can go unnoticed and unchallenged. As a critical and distinguishing feature of free and open societies, civil society has an important role to play in fostering democratic inoculation to authoritarian corrosive capital.

- Before civil society can effectively counter the threat, it must **address the scarcity of reliable information** about such capital flows. More effort is needed to support independent centers of knowledge.
- Local collaboration should be **supplemented with cross-border cooperation** among knowledge hubs as well as individual researchers and analysts who at present may be working on the same issues in isolation.
- Civil society should engage policymakers and their constituencies to **demand greater transparency and stricter rules of conduct** to safeguard democratic standards
- Multistakeholder coalitions can **advocate to change regulations and reporting requirements surrounding beneficial ownership**, and to pass and enforce effective legislation on conflicts of interest.
- Established mechanisms for civil society organizations to fight corruption must be **adapted to the specifics of authoritarian corrosive capital.**
- More fundamentally, **further safeguards against corruption, conflicts of interest, and anticompetitive business practices** are critical in this new environment.

Corrosive capital,[1] or capital flows from authoritarian regimes that undermine democratic processes and institutions in the receiving countries, is a new challenge that has no clear precedent in previous competitions between liberal democracy and authoritarianism.

The phenomenon only emerged as an issue of concern after the enactment of reforms in formerly socialist ("communist") countries, notably Russia and China, that introduced elements of capitalism, including massive cross-border exchanges of capital with open societies. It became more acute with the recent concerted efforts of Russia and China to spread an alternative economic model, the illiberal market economy, following almost three decades of integration with the global market. This integration, as an outgrowth of globalization more broadly, has enabled leading authoritarian regimes to manipulate the political landscape and degrade democratic integrity within open societies (referred to now as "sharp power").

The original assumption that capital flows in and from postcommunist states would primarily be directed by the invisible hand of the market, as in other capitalist economies, has not been borne out. The specific political conditions in authoritarian states led to significant differences in the functioning of capital, and indeed of capitalism as a socioeconomic system. Russia and China in particular began to use capital as a foreign policy tool that could bolster authoritarianism as a globally competitive governance system.

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Corrosive capital typically hides amid layers of larger exchanges with authoritarian regimes, the majority of which may appear legitimate and can have a financial, political, or cultural character. It does not require great amounts of money to have a corrosive effect. In fact, it often takes the form of strategic corruption, targeting critical institutions and key individuals in the receiving country's system of democratic governance, effectively repurposing them into instruments of foreign interference. The immediate result of such "elite capture" is a conflict of interest, with the coopted elites representing not the interests of their domestic constituencies, but rather those of the foreign parties involved. The whole system of governance may be affected through a few entry points, with far-reaching implications for democratic institutions.

Corrosive capital and strategic corruption differ from other forms of corruption in that they are backed, and sometimes orchestrated, by a state power for political rather than economic goals—or to advance a comprehensive authoritarian agenda with inseparable political and economic objectives. Employing cross-border capital flows for political manipulation through strategic corruption is ultimately the domain of state actors, but it can be implemented through a variety of vectors—including private companies, personal relationships, and legal mechanisms—over which a state or ruling elites exercise ultimate political control. It is important to remember that in authoritarian and especially one-party systems, private enterprise and international trade do not operate according to the same rules as in open societies.

"SANDBOXING" MARKET FORCES AND INTERNATIONAL TRADE TO SERVE THE LENINIST PARTY-STATE

The emergence of corrosive capital as a systemic threat to open societies is a feature of accelerated globalization after the end of the Cold War. Before the 1990s, financial interactions between the two geopolitical blocs were modest. The transfer of funds from the Soviet Union and China to democratic countries for political purposes was generally limited to support for local communist and revolutionary parties and other such organizations. These efforts had little impact on the mainstream political environment in the targeted states. Yet even during the Cold War, Moscow's economic influence was felt in Europe through oil and gas dependence, as well as through state-owned companies from the Soviet bloc that sought access to embargoed technologies. [2]

As a major new aspect of international relations, corrosive capital is an indirect consequence of market reforms in the command economies of authoritarian states, most importantly China and Russia. There is much irony in the fact that market reforms were once seen with hopeful expectations as a sign of the economic and even political "convergence" of one-party regimes with the democratic and capitalist world. In fact, in China at least, they were designed from the start as a tool to strengthen the party-state, with precautions built in to prevent any "convergence" or "peaceful evolution" from threatening the absolute power of the Chinese Communist Party (CCP).

In Russia, market reforms after the collapse of the Soviet Union quickly degenerated into schemes that supported an oligarchic state structure. This structure in turn channeled funds into "safe" rule-of-law destinations abroad, which have since faced corrosion from within through a variety of corrupt practices that typically accompany such capital inflows.

CORRUPTION, COLLUSION, AND CORROSION

In his book on "crony capitalism," Minxin Pei describes how the process of privatization under the larger program of market reforms in China and the former Soviet Union led to "collusive corruption," effectively concentrating wealth and power in the hands of well-connected elites, or "oligarchs."[3] Pei notes crucial differences between the two environments, namely the fact that privatization in China unfolded gradually under the Communist Party's control, whereas in the former Soviet Union, it took place abruptly after the collapse of the party-state. In both cases, however, privatization led to the fragmentation and weakening of state power, and it simultaneously ingrained the corrupt practices and widespread collusion between business and political leaders that persist today.

Eventually, efforts were made to mitigate this fragmentation and bring the oligarchs and their patronage networks under state control. These efforts appear far more successful in China, where the party-state structure remained largely intact. The signature anticorruption campaign of Xi Jinping, the CCP leader and state president since 2012 and 2013, respectively, has helped reinvigorate the party's chain of command and its absolute supremacy in both politics and the economy. It has been reclaiming the power that was peeled away by rampant collusive corruption under Xi's predecessors. Indeed, more than seven years after Xi took office, one can now plausibly argue that a creeping deprivatization process is under way.

These efforts have not eliminated the collusion, but rather placed it under the centralized control of the CCP leadership and of the Kremlin in Russia. Since 2000, Russian president Vladimir Putin has used the security services, politically controlled prosecutions, and asset seizures to bring any disobedient oligarchs to heel, and Xi's anticorruption campaign has served a similar purpose in China: The managers and owners of private enterprises can be detained and investigated by the party's disciplinary organs, and their assets can be seized and "consolidated" by state asset management agencies like CITIC (中信). This practice, originally extralegal but commonplace under the system of *shuanggui* (双规), or intraparty disciplinary detention and investigation, has been formalized and officially extended to non–party members through the March 2018 introduction of the National Supervisory Commission (中华人民共和国国家监察委员会) to supplement the party's own Central Commission for Disciplinary Inspection (中国共产党中央纪律检查委员会).[4]

Apart from punitive measures against unauthorized collusive corruption, the CCP under Xi Jinping has been trying to reassert control over private enterprise by proactively entering the management structures of corporate entities. It has been establishing, revitalizing, and dramatically expanding the influence and role of formal party cells in private businesses, including many that have at least partial foreign ownership. According to a 2016 survey by the CCP Central Organization Department, 68 percent of private companies and 70 percent of foreign enterprises had party committees.[5] The number is most likely higher now. Companies have also been pressured to write the party cells into their articles of association, giving them an institutional role in corporate governance and decision making. In 2017, the European Union Chamber of Commerce in China issued an official complaint, arguing that this policy undermines the authority of their member corporations' governing boards.[6]

In Russia, the process of asserting political control over the business sector has been less thorough and formalized. Nevertheless, the Kremlin under Putin has expanded and consolidated state-owned enterprises, most notably in energy, defense, and banking, and ensured complicity from private enterprises through coercion or cooptation. The state-owned energy giant Gazprom has become a powerful arm of the regime, with massive holdings in sectors including media, banking, and finance.

The mechanisms of control that have been strengthened under Putin and Xi enable their governments to use businesses, whether state owned or private, to pursue their domestic and foreign policy objectives. For example, China's 2017 National Intelligence Law requires all businesses to assist Chinese intelligence agencies in their operations.[7] The law itself may have merely formalized a practice that was already believed to be widespread. Chinese companies have been trying to persuade foreign audiences that the rule only applies domestically, but the legal argument has not been convincing.[8]

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Having essentially mastered collusive corruption at home, authoritarian regimes are increasingly applying their skills abroad in a bid to dominate foreign political structures and economies, including in democratic states. The deployment of Chinese companies overseas as de facto tools of influence and cooptation is especially evident in the highly politicized and state-driven Belt and Road Initiative (BRI). Specific instances of collusive corruption have been documented in countries as diverse as North Macedonia,[9] Malaysia,[10] and Uganda.[11] Chinese private companies, though selectively punished for corrupt practices within China, are apparently free to pursue them overseas—until they get caught by local law enforcement. Perhaps the most graphic illustration of this dynamic is provided by the Chinese company CEFC (中国华信), discussed in more detail below.

Moscow has similarly sought to convert its foreign economic presence into political influence through corrosive capital flows that expand or create governance weaknesses in the receiving countries.[12] It has often used global financial hubs and tax havens to extend its reach and conceal its activities.[13] Russia's efforts in Europe have been strongest in former Soviet republics such as Ukraine, Armenia, and Georgia,[14] but they have also been on display in the Balkans.[15] Russia, unlike China, has openly opposed the region's integration into NATO and the European Union, and it has taken steps to entrench itself economically in the largest country in the region, Serbia, through opaque government-to-government contracts pertaining to energy and infrastructure.

THE CHINESE MODEL: MARKET FORCES IN A CONTROLLED "SANDBOX"

The BRI was famously described by the disgraced secretary general of CEFC's nonprofit wing, former Hong Kong home secretary Patrick Ho (何志平), as "a pathway to more equitable globalization."[16] Equitable or not, it is indeed a very different take on globalization, mainly in that it is driven by the state or ruling party rather than market forces. BRI policies and projects are developed at a Chinese "super-ministry"—the National Development and Reform Commission (国家发展和改革委员会), formerly known as the State Planning Commission—and discussed formally at BRI summits attended by the top political leaders of participating countries. The BRI, globalization, and international trade and investment in general are all understood in this new rendering as extensions of China's CCP-dominated socioeconomic system.

This is not to say that market forces do not play a significant role in the Chinese system. They have been a crucial factor ever since the introduction of Deng Xiaoping's Reform and Opening (改革开放) policies in the late 1970s, and especially since his "southern tour" in 1992.[17] Their role in the system, however, differs significantly from open economies in other countries.

With Deng's reforms, the CCP did not integrate, but rather coopted market mechanisms. The controlled introduction of such mechanisms may have signaled the end of orthodox communism in China, but it has not seriously affected the country's Leninist political system, in which the ruling party formally controls all institutions and the party itself is tightly controlled by a self-selecting central leadership. Indeed, the CCP made sure that market forces do not operate independently, but in a virtual "sandbox" where they can be safely contained and corrected as needed. A parallel can be seen in the CCP's careful management of the internet within the Great Firewall, the multilayered censorship apparatus that stands between Chinese users and the freewheeling international network.

It is this ingenious confinement of the most dynamic aspects of open societies within a Leninist system that enabled the regime not only to survive existential crises like the upheaval of 1989, but also to thrive economically, and to use the resulting wealth for the suppression of all emerging challenges to its monopoly on political power.

Within the sandbox for market forces, the CCP sets the rules and can determine the success or failure of "private" ventures by controlling access to capital from state and policy banks, by offering or withdrawing licenses and permits, and ultimately through direct administrative intervention, including physical seizure of both the relevant individuals and their assets. It can allow billion-dollar companies to spring up overnight and then dissolve them by fiat and redirect the flow of capital to other players. In effect, within the sandbox, the party can supplement or even replace Adam Smith's "invisible hand" with its own often heavy-handed controls. The Chinese model of absorbing market principles and globalization into the existing Leninist system has in fact been the most consequential impetus for the emergence of corrosive capital with a truly global reach. Thanks to the overseas economic expansion initiated by the Go-Out Strategy (走出去战略) in the early 2000s, and accelerated with the BRI after 2013, the CCP can now employ China-based companies, whether state owned or private, to pursue its political objectives under the guise of "economic diplomacy."

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The politicized and arbitrary nature of "market forces" in China is perhaps best demonstrated by a class of companies that emerged in the late Hu Jintao era, seemingly out of nowhere, with billions of dollars to invest in spectacular shopping sprees abroad. These instant behemoths included Fortune 500 companies like Anbang, HNA, and CEFC. The meteoric rise of these companies was fueled with credit from the regime's policy banks (chiefly the China Development Bank), and subsequently with credit raised from foreign banks and other lenders. Based on cryptic remarks by their representatives,[18] the growth of the enterprises appears to have reflected a policy effort to prime nominally private companies for overseas expansion, especially in sensitive sectors where the direct involvement of state-owned firms might raise suspicions in target countries.

The experiment failed miserably after a few years. The super-empowered private companies proved difficult to control and accumulated astronomical debts through the acquisition of trophy assets like prime real estate and European football clubs. By 2017 their recklessness came to be seen as a systemic risk for the whole economy and a direct hindrance to broader efforts aimed at reducing the country's debt load. The CCP consequently tweaked the rules in the sandbox, arranged for takeovers of the overgrown corporations by state-owned entities like CITIC, and detained or forcibly disappeared the firms' nominal owners and executives. In line with Xi Jinping's renewed emphasis on the state sector, the regime no longer hesitates to use state-owned enterprises to promote its agenda overseas.

At least one of the ostensibly private companies, CEFC, has been accused in U.S. federal court of engaging in political corruption in several countries and at UN headquarters in New York, and one of its top representatives was convicted and sentenced accordingly. The CEFC case is unique in offering well-documented insight into a Chinese corporation's role in political interference abroad.

ECONOMIC DIPLOMACY FOR POLITICAL COOPTATION

Apart from the CEFC's characteristic economic recklessness, resulting in the accumulation of enormous debts,[19] the globe-trotting company caused major embarrassment for Beijing by getting caught and punished for bribing political leaders in Africa and high-ranking officials at the UN. The case is illustrative of the overlap between CCP-connected arbitrary capital operations and the party's political interference machinery. The company emerged almost overnight with billions of dollars borrowed from state-owned policy banks. It made splashy acquisitions overseas, including an aborted attempt to buy a 14.2 percent stake in the Russian oil giant Rosneft.[20] At the same time, it pushed China's foreign policy objectives, most notably in facilitating "economic diplomacy" in the Czech Republic and promoting the BRI at the UN and indeed globally. Finally, it was exposed as a fraud and found to have delivered cash in gift boxes to African presidents and government ministers.

Like many similar Chinese companies, CEFC rose from obscurity in the early 2010s and made it to the Fortune 500 index by 2014.[21] Its young chairman, Ye Jianming (叶简明), was ranked second on Fortune's index of 40 entrepreneurs under the age of 40.[22] The company was linked to Chinese military intelligence in a detailed 2013 report by the Project 2049 Institute on the CCP's political warfare activities.[23] In the same year, a hard-line Chinese think tank associated with CEFC led the counterattack against a short-lived upsurge of constitutionalism in China's more independent press and academic institutions; the advocates of constitutionalist principles had been mistakenly emboldened by Xi Jinping's positive remarks on the 30th anniversary of China's 1982 constitution.[24] The silencing of this movement marked the repressive turn overseen by Xi after he consolidated power as CCP general secretary in late 2013.

Already in 2011, CEFC's eponymous nonprofit wing, also chaired by Ye and administered by former Hong Kong home secretary Patrick Ho as secretary general, had received special consultative status with the UN Economic and Social Council (ECOSOC), an international body dedicated to sustainable development.[25] The CEFC think tank specialized in promoting the BRI as a new, more equitable form of globalization and economic development that was free of Western domination.

The formal affiliation with ECOSOC facilitated networking at the UN. In 2015, Ye became honorary adviser to both UN General Assembly president Sam Kutesa[26] and Czech president Miloš Zeman.[27] Meanwhile, Ho traveled the conference circuit and published articles praising the BRI, meeting with a plethora of foreign think tankers and public figures. In November 2017, CEFC cosponsored a new Institute of the Belt and Road and Global Governance,[28] located in Shanghai at Fudan, one of China's top universities.

Just a few days later, Ho was arrested in New York and indicted for extensive political corruption in Africa and at the UN.[29] Specifically, he was accused of bribing Chadian president Idriss Déby and Sam Kutesa, who was also the foreign minister of Uganda, to secure oil rights and other privileges in their countries. He was convicted in November 2018 and sentenced to prison in March 2019.[30] During the trial, the prosecution presented documentary evidence that Ho was acting with full knowledge of the CEFC chairman.[31]

Ho argued in court that he had not bribed foreign political figures, but was simply advancing Chinese foreign policy initiatives "in furtherance of the Chinese state's agenda." He requested unsuccessfully that experts in Chinese studies be called to "educate" the court on BRI and explain that his actions were in fact normal practices.[32]

Shortly after Ho's arrest in New York, Ye Jianming was disappeared in China, apparently by CCP disciplinary organs. Unlike with the other "instant" tycoons who met a similar fate, Ye's detention was reportedly ordered directly by Xi Jinping,[33] suggesting the political importance of this case, and perhaps the level of embarrassment CEFC's conduct had caused for the BRI as a whole. Meanwhile, a lengthy analysis was published,[34] and quickly censored, on the website of *Caixin*, a respected Chinese economic magazine. It showed CEFC to be an elaborate fraud built on unsustainable liabilities. After the disappearance of its chairman, the company was unable to raise more credit to service its debts and quickly collapsed, only to be taken over by the state-owned investment and asset-management agency CITIC.

As with China and CEFC, Russia has also employed large-scale energy projects, such as gas pipelines and nuclear power plants,[35] as vehicles for the political capture of host-country elites and political influence on the general public. In some settings, including Bulgaria, North Macedonia, and Serbia, the projects have been inflated with commissions and act like an addictive drug on cash-strapped local rent seekers. The multibillion-dollar endeavors have revived central-planning reflexes and hopes for windfall profits from energy transit fees. The targeted leaders, however, have not taken into consideration their lack of leverage with the Russian side and their own administrations' utter lack of capacity to handle the projects. In other countries, such as Hungary, Greece, and Turkey, Moscow has used the promise of artificially reduced gas prices to lure local leaders seeking a political advantage.

In the notorious case of the Nord Stream gas pipeline, which was opposed by the European Commission and many EU member states but nevertheless constructed with the participation of Germany and the Netherlands, the Kremlin granted lucrative board positions to former party and government leaders, such as former German chancellor Gerhard Schröder. Moscow has also used various Russian energy, banking, media, and other enterprises as proxies to deliver political support and funding to extremist parties across the continent, notably in Germany, France, Italy, Austria, and much of Central and Eastern Europe. The "Ibiza-gate" sting operation on Austria's erstwhile vice chancellor and far-right party leader, which was publicized in 2019, laid bare how alarmingly easy it is for foreign entities to engage European politicians in corrupt schemes to interfere in elections and obtain government contracts.[36]

It should be noted that these "economic diplomacy" efforts by both Russia and China may not bring meaningful benefits to the public in either country. Indeed, as the spectacular collapse and takeover of CEFC demonstrates, they can often be quite costly to the state. But the deployment of economic tools to improperly influence leading figures in target countries, which is becoming commonplace in the BRI,[37] serves the political goal of "elite capture."

Such elite cooptation through corrosive capital ultimately repurposes the institutions overseen by the captured leaders to serve the authoritarian power's goals, without the need for a regime change or the installation of foreign personnel. The very institutions of democratic governance become instruments of authoritarian interference. With relatively modest "investments"—often a combination of direct benefits for key individuals and questionable loans that use local resources as collateral—an authoritarian power can penetrate and corrode the institutional framework of democratic rule from the top down.

Some states have indeed received large-scale Chinese loans or other investments, particularly when democratic powers have withdrawn or withheld support due to human rights and governance shortcomings and Beijing has stepped in to exploit the opportunity. These cases include Venezuela, Sri Lanka under the authoritarian Rajapaksa family, Pakistan, Laos, and Cambodia. The effective result has been to prop up undemocratic regimes and to facilitate China's seizure of strategic local resources when loan recipients cannot service their debts with currency.

In other countries, however, including many participants in the BRI, the impact of Chinese political engagement in and of itself is arguably greater than any outcomes flowing from opaque financing and investment deals. Bulgaria, for example, has joined a number of Chinese initiatives that are not backed by actual economic agreements, including a strategic bilateral partnership, a Sofia-based Global Center for Partnership for the "16+1" grouping between China and sixteen Central and Eastern European states, and a related 16+1 Logistics Center and Pavilion for E-Commerce in Agricultural and Other Products.[38] The situation is similar in other 16+1 (now 17+1) countries, which have seen a proliferation of institutions, many of them linked to the BRI, that do not seem to serve any clear purpose.

CEFC IN THE CZECH REPUBLIC: REPURPOSING DEMOCRATIC INSTITUTIONS THROUGH ELITE COOPTATION

The dramatic rise and fall of CEFC offers a graphic example of Chinese economic diplomacy that generates arbitrary and corrosive capital flows, leading to elite capture and the repurposing of governance institutions in target countries.

Apart from its engagement in high-level corruption in Africa and at the UN, CEFC's tactics were perhaps the most successful in the Czech Republic, where it established an overseas headquarters, CEFC Europe, in 2015.

Apart from its engagement in high-level corruption in Africa and at the UN, CEFC's tactics were perhaps the most successful in the Czech Republic, where it established an overseas headquarters, CEFC Europe, in 2015. The company's chairman, Ye Jianming, became an adviser to Miloš Zeman, the Czech president, in April of that year, several months before the company had begun any economic activities in the country;[39] he retained this post even after he was forcibly disappeared by the Chinese authorities in early 2018. His honorary appointment in the Czech Republic coincided with a similar appointment as the honorary adviser to Sam Kutesa, the Ugandan foreign minister then serving as UN General Assembly president. According to evidence presented by the prosecution in Patrick Ho's trial in New York, Kutesa received half a million dollars from CEFC in May 2016.[40]

Zeman hailed the company as the "flagship of Chinese investment in the Czech Republic,"[41] but CEFC's economic activities remained underwhelming beyond an initial shopping spree in the fall of 2015, consisting mostly of eye-catching acquisitions like prime real estate in Prague. Even these purchases eventually turned out to have been financed through credit, at least some of it raised from a local lender, the Czecho-Slovak J&T Bank.[42] When CEFC was unable to raise more credit after the disappearance of its chairman, the company collapsed and left in its wake a multibillion-dollar debt, later consolidated by CITIC.

In contrast to its lackluster investment activities, CEFC devoted particular attention to cultivating the country's elites, mostly through direct employment at CEFC Europe. The unit was headed by Jaroslav Tvrdík, former defense minister and campaign manager for the Czech Social Democratic Party (ČSSD). Tvrdík had been a lobbyist since 2010 for the Czech financial conglomerate PPF and its Home Credit division.[43] Home Credit had been seeking a national license for its consumer loan operation in China. Its representatives said they were told by their Chinese counterparts that the license would not be forthcoming until the Czech Republic changed its hitherto lukewarm attitude toward relations with China.[44] At that point, PPF started hiring former politicians like Tvrdík who had extensive government contacts in the Czech Republic.[45]

Tvrdík's moment came in 2013, when the newly elected President Zeman took advantage of a banal coalition crisis and named his own caretaker government, stretching the rules of the Czech constitution. The government was staffed with many of Tvrdík's former ČSSD colleagues. He himself became the president's and the caretaker prime minister's adviser on China,[46] and then the adviser to the prime minister of the regular ČSSD government that was formed the next year.[47] In May 2014, the new China-friendly policy was officially declared during the Czech foreign minister's visit to Beijing. That same year, Home Credit won its coveted national license in China, and its consumer loan business started to grow rapidly.[48] By 2017, its net loans in China amounted to nearly €10 billion (US$11 billion), a fifteenfold increase since 2014.[49]

After becoming the head of CEFC Europe in 2015, Tvrdík effectively served as the hub of a triangular relationship linking PPF, CEFC, and the offices of the Czech president and prime minister. It was unclear whether he represented a Czech company, a Chinese company, or the Czech state. The lines were further blurred after Ye was attached to the president's office as an adviser, and various officials moved freely between Prague Castle and CEFC Europe.[50] Miroslav Sklenář, originally in charge of protocol at the Castle, distinguished himself by passing through the revolving door between CEFC Europe and the presidential office not once, but twice in three years.[51] In late 2017, CEFC Europe even hired the Czech former European commissioner for enlargement, Štefan Füle.[52] The Czech state seemed to be merging with CEFC through a dense network of shared and circulating personnel.

A consequence of this effort at elite capture in the Czech Republic was what might be viewed as a massive conflict of interest in the repurposed state institutions, which were unable to fully perform their intended functions in the democratic system and uphold the Czech national interest. Some aspects of the "bilateral" relationship now serve obvious CCP interests from both the Chinese and Czech sides.

One example is the Chinese-Czech Center for Belt and Road Cooperation (一带一路" 中捷合作中心), established at the Czech Ministry of Industry and Commerce (MPO) in 2017 to coordinate with China on the BRI agenda. According to the current Czech ambassador to Beijing, it is meant as one of the "three pillars of mutual dialogue."[53] On the Chinese side, the center's agenda is handled by the National Development and Reform Commission. On the Czech side, however, its daily operations were immediately delegated by the MPO to the Mixed Czech-China Mutual Cooperation Chamber (Smíšená česko-čínská komora vzájemné spolupráce).[54]

Through this curious arrangement, the Czech end of the bilateral cooperation mechanism ended up in the hands of to a private entity whose top management overlapped with CEFC Europe—a "private" Chinese company—and after CEFC's demise, with CITIC Europe, the local branch of a Chinese state agency. In other words, either directly or through proxies, Beijing is managing both sides of the coordination mechanism for "bilateral" cooperation on the BRI.[55] This short-circuit structure, and the very existence of the center, was only officially acknowledged after it had been disclosed by Sinopsis—a local project dedicated to tracking China's influence in the Czech Republic[56]—and confirmed through freedom of information requests by Czech journalists. Despite the media attention directed at the glaring conflict of interest, the center remains in operation at the time of writing. Similar conflicts are evident in other countries with a history of massive CEFC involvement, such as Georgia.[57]

The apparent gambit of elite capture performed by CEFC and other commercial entities in the Czech Republic not only served to repurpose the institutions of democratic governance, such as the relevant ministries, but also created a rupture in the larger Czech institutional framework. Some state institutions, like the presidential office, have repeatedly and openly contradicted others, like the security agencies. When the National Cyber and Information Security Agency (NÚKIB) issued a warning against the use of Huawei equipment in critical infrastructure in late 2018, the Czech president went on TV Barrandov, a television channel co-owned by CEFC/CITIC,[58] to publicly defend the Chinese telecommunications giant and denounce his own country's security establishment.

An effective defense against corrosive capital in democratic societies depends on many factors, but it ultimately derives from the resilience of the political system and civil society.

The legacy of CEFC engagement in the Czech Republic vividly illustrates how corrosive capital from technically private Chinese companies can undermine democratic institutions in target countries. CEFC's rogue activities throughout the world led to its eventual demise, but its distressed assets, including its top foreign personnel, in the Czech Republic have been absorbed by CITIC, a state agency that continues with many of CEFC's activities.

Meanwhile, PPF's Home Credit business has apparently continued to serve the PRC's interests in the Czech Republic. In December 2019, the news portal Aktuálně.cz reported on leaked documents suggesting that the company had hired a public relations agency that was surreptitiously placing pro-Beijing content in major Czech media outlets, and even established a project called Sinoskop that posed as the output of an independent think tank.[59]

Sinoskop was launched in early 2019, seemingly in response to Sinopsis, which had helped expose the CCP's penetration of Czech policymaking. The Home Credit–supported entity copied some aspects of Sinopsis's activities, but with a clear pro-Beijing slant. It claimed to be managed and funded by Vít Vojta, a Chinese-language interpreter for Zeman and many of the business entities close to him. However, the documents revealed by Aktuálně.cz showed otherwise. The public relations firm hired by Home Credit evidently micromanaged the project to the extent that it prepared social media posts for both Sinoskop and Vít Vojta himself. The same agency also reportedly helped organize at least one "seminar" in the Czech Parliament that was nominally led by a prominent lawmaker.[60]

These revelations are significant in that they show a powerful Czech financial conglomerate seeking to manipulate the local discourse in ways that benefit Beijing. Taking into consideration its need to maintain good relations with the Chinese government, the company seemingly ceased to make a distinction between its own and the CCP's interests. This would of course suggest that the CCP's United Front tactics in the business world have enjoyed a very high degree of success.

CIVIL SOCIETY RESPONSE

An effective defense against corrosive capital in democratic societies depends on many factors, but it ultimately derives from the resilience of the political system and civil society. All democracies can be exposed to corrosive capital, but the more established systems tend to fare better than comparatively new democracies. One only needs to look at the different responses to Chinese activities in Australia on the one hand and Central and Eastern Europe on the other. The contrast is especially remarkable given the fact that Australia has a much deeper economic relationship with China, as well as a much larger Chinese diaspora community (often a target of CCP coercion). Despite the higher stakes, Australia has managed to formulate an energetic policy response, while, in the countries of Central and Eastern Europe, the pushback has mostly been left to civil society if it exists at all. The response there has been similarly subdued with regard to Russian corrosive capital.

Civil society clearly has an important role to play, particularly in settings where the other pillar of resilience, democratic governance, suffers from large-scale elite capture, and the repurposed institutions are at risk of failing to safeguard the integrity of the political system and the national interest. Unfortunately, civil society itself is not immune to corrosive capital and elite cooptation. It faces the same tactics and economic incentives as do political leaders and state institutions, just on a different scale.

Some sectors of civil society, such as the media and academia, tend to be more vulnerable to corrosive capital because of their generally insecure financial circumstances. The news media's business models have been hit hard in many parts of the world by technological change and the proliferation of new outlets and content-delivery systems, but the crisis has been especially severe in smaller markets associated with smaller languages and audiences, such as the Czech Republic. Similarly, academia has been suffering from perennial underfunding in precisely those parts of the world with weaker governance systems. The same goes for think tanks, which have been systematically targeted by Chinese state-sponsored "networking" initiatives such as the "16+1 think tank network,"[61] or eSilks, a similar network associated with the BRI.[62] It is notable that CEFC, apart from running its own eponymous nonprofit linked to corrupt practices in Africa and at the UN, also supported a number of think tanks in China and abroad, such as the Center for International Relations and Sustainable Development (CIRSD) in Belgrade.

For civil society, perhaps even more than for governments, the first problem to address as part of the struggle against corrosive capital is the scarcity of independent knowledge production and dissemination that would normally be provided by think tanks, academia, and the media. Before it can effectively counter the threat, civil society needs to understand it, or indeed to develop an awareness of it. Yet independent and reliable information is not always forthcoming from the usual sources. Local media typically cannot afford to keep area specialists on staff, or even reporters who would exclusively cover the relevant beats. Academic independence is often hindered by concerns about visas and access to the countries under scrutiny. Think tanks have been facing massive cooptation campaigns.

In these circumstances, more effort is needed to support independent knowledge centers, where they already exist. Such hubs should be proactive in bridging the cognitive gap for larger audiences, beyond the narrow community of fellow analysts, through intensive cooperation with other civil society institutions, including the media and specialized watchdog organizations focusing on transparency and anticorruption work.

Local collaboration should be supplemented with cross-border cooperation among knowledge hubs as well as individual researchers and analysts who may be working on the same issues in isolation. Corrosive capital is, by definition, a transnational phenomenon, and it can only be fully understood through active collaboration among partners in various countries. Before its demise, CEFC managers had been literally flying around the world in private jets (CEFC owned two, an Airbus A319 and a Gulfstream G550).[63] To track the activities of such jet-setting entities, compare local variants of their global tactics, and identify general patterns, analysts need to share information and compare notes across borders. This sort of focused international cooperation among civil society actors has already helped uncover important new details about CEFC in previously unidentified locales.[64]

Once an effective structure for knowledge production and dissemination is in place, it needs to inform specific civil society activities to address the issue in concrete terms. Some countries, like Australia, have a head start in both the independent production of knowledge and its application in the form of practical policies, including specific legislation. It would be useful to connect civil society actors from such environments with their peers in countries where public awareness of corrosive capital is only beginning to emerge.

Apart from shedding light on obscure dealings between political and business elites, civil society can push for meaningful responses by engaging policymakers and their constituencies and demanding greater transparency and stricter rules of conduct. Multistakeholder coalitions can advocate to change regulations and reporting requirements surrounding beneficial ownership, or to pass and enforce effective legislation on conflicts of interest. There are established mechanisms for civil society organizations to fight transnational kleptocracy, ranging from open-source intelligence gathering and investigative reporting to strategic litigation. These proven approaches need to be adapted to the specifics of corrosive capital, namely the involvement of state actors at both ends of a corrupt cross-border scheme. Thus civil society will have to demand that government institutions in the democratic world devote more attention to the economic fundamentals of corrosive capital in order to design appropriate responses. So far, policymakers addressing authoritarian influence in democracies have mostly concentrated on propaganda and security breaches; the agenda now needs to be expanded to include more robust safeguards against corruption, conflicts of interest, and anticompetitive business practices.

The problem of corrosive capital needs to be understood in its full complexity, including the prevailing international patterns and local variations. Then it needs to be described effectively to policymakers and the general public. Targeted initiatives must be taken to remedy the situation, from strategic litigation to policy formulation and advocacy campaigns. In short, there is an urgent need for an interconnected, interdisciplinary, and cross-border ecosystem for research, analysis, outreach, and advocacy.

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