

Principal-Agent Dilemma in China’s Social Media Sector? The Party-State and Industry Real-Name Registration Waltz

JOHAN LAGERKVIST¹

Swedish Institute of International Affairs

Since the late 1990s, the Chinese party-state has increasingly delegated responsibility from the bureaucracy to new media companies across the spectrum of the ICT business sector to monitor deviant user behavior. This article argues that businesses comply with the party-state’s control policies only conditionally and analyzes a specific principal-agent dilemma embedded into state regulation and the policy implementation chain of social control. It contends that the party-state has only temporarily solved this dilemma by maintaining the risk of sanctions for the industry while rewarding compliant businesses with policy rewards. The analysis finds that emerging cracks in cadre-capitalist cooperation are contingent on the state’s continued negotiations on policy.

Introduction

Use of social media, like the digital communications practices that preceded it on the Chinese Internet, challenges the Leninist political system and state-controlled mass media. Today, leaks of political scandals, social protests, and other contested issues travel ever faster through the networked world of blogs, friend sharing websites, and Twitter-like microblogs, while the party-state and its security apparatus strive to keep up with the pace of change.² Efforts to maintain the existing information order and its locked-in, yet budding public sphere entail practices of social control and a division of labor between social media businesses and party-state officials to censor media consumers in an emergent civil society, amidst increasing marketization and wooing of audiences. Since the early 1990s, Chinese entrepreneurs in the ICT sector have faced a conundrum of being pulled in different directions by consumerism, social interest, and state control.

¹ I wish to thank the two reviewers for their valuable comments on this article.

² Some of the most spectacular leaks in 2011 and 2012 have concerned protests against land grabs in the countryside (e.g., the high-profile case of the village of Wukan) and the mounting scandal around, and subsequent ousting of, the megacity Chongqing’s colorful and very “red” party secretary, Bo Xilai.

Johan Lagerkvist: johan.lagerkvist@ui.se

Date submitted: 2012–05–04

Copyright © 2012 (Johan Lagerkvist). Licensed under the Creative Commons Attribution Non-commercial No Derivatives (by-nc-nd). Available at <http://ijoc.org>.

Serving two masters with diverging interests in open networks and information flow is both a financial and a strategic burden for these companies. The enterprises' endurance hinges on the complex interplay between outside and transnational norms on the one hand, and on the other domestic norms and other broader structural transformations in Chinese society, such as generational change, administrative reform inside the Chinese Communist Party (CCP), and growing class divides. Societal anxiety and state attempts to defuse it often gain visibility via channels to the world of bits and bytes. There, tensions mount between increasing consumer demand for unfiltered news and the businesses that provide such information in exchange for profit. This world also amplifies a tension of a normative and moral nature between social control and the need and preference for raw and undiluted information throughout China's civil society and business world. Particularly noteworthy today is the uneasy coexistence between the animated discussions on Chinese microblogging platforms, such as Sina Weibo and Tencent Weibo, and the party-state's fixation on social and political stability. The purpose of this article is to tease out and analyze the perspectives of professionals and business leaders in the social media sector on their paradoxical role of both facilitating and containing freer speech. The questions posed concern the dilemma of principal-agent relations, which arises in the biggest Chinese microblogging companies' dealings with real-name registration of microblogs under conditions of state-delegated responsibility for microblog content. The social media businesses in China's ICT sector are especially interesting to investigate because they fall outside the conventional lines of the party-state bureaucracy's direct control over traditional mass media.

Literature and Background Review

Control practices that target Internet businesses in general and lately the use of social media in China in particular follow mainly from the party-state's unending concern to curb threats to sociopolitical stability. Like Chinese state-owned media organizations, private media businesses must adhere to policies set to preserve the legitimacy of the CCP. These same businesses are meanwhile building the communicative infrastructure that restive social forces use to connect and disseminate socially provocative, sensitive, or—even worse—"subversive" ideas. However, rolling out broadband and setting up social media platforms produces both envisaged and unintentional effects, often referred to as the "dictator's dilemma" (Kedzie, 1997). The introduction of modern communications infrastructure and systems in the Muslim world, for example, led to freer flow of information, an outcome far from the original intent of the region's authoritarian governments (Howard, 2010). The context of normative divisions between state, business, and society regarding the public good of the Internet in China likewise speaks to the dictator's dilemma. This notion along with the idea of "socialism with Chinese characteristics" speak to the longstanding research debates that this article is informed by and also seeks to contribute further to.

The problem described above ties into the debate on the principal-agent dilemmas of trust between a superior policy and decision-making entity and a lower policy-implementing agent in complex and multilayered hierarchies within state bureaucracies and large private enterprises. This universal organizational dilemma attains new and special significance in the age of digital media, when citizens in both authoritarian and democratic political systems share (often illegally) protected intellectual property and leak state information through horizontal peer-to-peer networks online. In response, intelligence work

and policing of deviant expression are now, to a much larger extent, outsourced to intermediaries that monitor networks, platforms and services on behalf of state organs. In the case of China in the past decade, the state has drawn private and state-owned commercial entities into its efforts to police and monitor citizens' online movements and speech acts. This conundrum echoes omnipresent problematics of governance of media systems. When the English Crown in 18th-century Britain attempted to outsource control of an emerging press system to fledgling and independent newspaper owners (Siebert, Peterson, & Schramm, 1956), all sorts of foot dragging, avoidance, and ultimately pressure for change followed. Despite its vastly different time, space, and technology, today's China is encountering some of the same problems confronting English censorship some 250 years ago. Arguably, it also echoes the problems of Internet company intermediaries in the United States, exemplified by the debate on net neutrality that the controversial SOPA and PIPA legislative bills highlighted in 2011 (Yu, 2012).

This article will proceed by discussing the uneasy, yet mutually beneficial relationship between cadre-officials and capitalists in China during the economic reform period that started in the late 1970s. Following this outline is an account of Chinese microblogging companies' dual role as both facilitators and monitors of social media in China's locked-in public sphere. Thereafter, an analysis of the existing principal-agent problem in China's social media sector directs the spotlight to the larger debate on the potential role of Chinese capitalists in a process of democratic transition. The findings show that the current principal-agent dilemma, which is embedded in the law and policy implementation chain of social control, has only been temporarily solved by maintaining the risk of sanctions for the industry while bestowing policy rewards on compliant businesses. The temporariness of cooperation between cadres and capitalists makes their association inherently uneasy, as equilibrium is contingent on the state's continued provision of policy kickbacks. The growing inconsistencies at both ends of the spectrum of relations between officials and ICT entrepreneurs are of considerable interest for future research on this particular principal-agent dilemma in the People's Republic.

The Cadre-Capitalist Power Alliance

Descriptions of China's contemporary mode of capitalism, officially called "socialism with Chinese characteristics," have juxtaposed a variety of concepts from the worlds of socialism and the market economy. Some of the most ubiquitous denominations have been market Leninism, bureaucratic capitalism, and—perhaps most prevalently today—state capitalism. Although the new Chinese Constitution of 1982 mentions the rights and interests of the "individual economy," it clearly states that the party-state "supervises the individual economy by exercising administrative control."³ Throughout the 1980s the political environment was still hostile to private companies because of continuing discrimination from the Leninist party-state, which favored state-owned companies by giving them cheap access to land, water, buildings, and loans. Nonetheless, right from the start of the economic reform period of the late 1970s, senior party leaders saw private enterprise as a player able to "fill up the gaps" left by an ailing public sector and bloated state firms (Wright, 2010, p. 39). Individual companies proved instrumental, employing people and supplying material goods and services that were desperately needed after decades

³ See Constitution of the PRC, <http://english.people.com.cn/constitution/constitution.html>, Article 11, lines 132–133.

of politicized class struggle had failed to bring about higher living standards. In short, by contributing to economic growth, they were participating in the grand project of building "socialism with Chinese characteristics" and generating new, much-needed legitimacy for the CCP.

This functionalist approach to economic society resembles the way the party-state has found use for and encouraged voluntary associations in the emerging civil society. Many services and functions previously carried out by the party-state were outsourced to tightly monitored NGOs. Today, the party-state still views private enterprise as a facilitator—a tool to keep public opinion at bay and implement the state's policies of stability enhancement.

Miraculously, however, many private companies have managed to prosper despite the unfavorable circumstances. The metrics regarding the growth of the private sector in China are indeed impressive. Over the past decade, the number of private enterprises increased by 35% annually to total more than 5 million today. Private companies now account for 66% of China's total GDP and as much as 71% of tax revenue (Dickson & Chen, 2010, p. 1). It is not surprising, then, that interest in the relationship between capitalism and the authoritarian political system in China has been growing since the beginning of the 1980s (Solinger, 1984). Data sets obtained in 2006 and 2007 from the five rich coastal provinces where approximately 70% of the country's individual businesses are located (Dickson & Chen, 2010) reveal a cadre-capitalist power alliance in today's China. As many as 38% of the business leaders included in their study were judged to be "red capitalists," that is, members of the CCP. A smaller share, 18%, were deputies to the National People's Congress or provincial- and county-level People's Congresses.

The CCP's rationale for building a strategic cadre-capitalist alliance rests on two strategic pillars. First, there is the perceived need to incorporate capitalists into the ruling party and other institutions of the political system such as the national-, provincial-, and local-level People's Congresses. Making capitalists into comrades-in-arms in the economic growth scheme is ultimately a political project to strengthen the performance legitimacy of the CCP. The second pillar is the security-related concern to prevent entrepreneurs and middle-class professionals from transforming into a more autonomous social interest and a political force with potential to become part of a broader opposition to CCP rule (Dickson, 2007). The party's rationale became preventive policy when former President Jiang Zemin launched his political formula of the "three represents" in 2000, abolishing a taboo by letting private entrepreneurs become members of the CCP. His stratagem (viewed as a political theory it was unsubstantial) integrated both pillars of the rationale, calling even more attention to the merger of vested old power and new social interests. And the research literature since 2000 shows rather strong consensus that Chinese entrepreneurs' growing economic power has neither translated into political influence outside the sphere of economic policy nor merged with the liberalist values found in the dissident manifesto Charter 08 (Dickson, 2007; Dickson & Chen, 2010; Tsai, 2005).⁴ Far from seeking alliance with these rather marginalized social interests, the leaders of private businesses have been co-opted by new strategic policies chosen by the CCP or, more actively, aligned with political power, which has proven more

⁴ The Charter 08 manifesto aimed to promote the democratization of China's political system. It was drafted by Liu Xiaobo, who in 2009 was sentenced to 11 years in prison for having "attempted to subvert the state."

worthwhile.

General Atmosphere of Submissiveness

The submissive stance of Chinese ICT entrepreneurs has been a consistent theme over time, starting in 1999 with the introduction of regulations prohibiting new media organizations from also becoming bastions of online journalism. By and large, a general atmosphere of giving in to old political power permeates a business climate of pervasive corruption, where businessmen secure profitable contracts and win market shares through friction-free, mutually beneficial cooperation with politicians and regulators. However, that does not mean Chinese businessmen unconditionally accept authoritarianism or are willing to support political liberalization and democratization “only when they do not perceive such a transformation as a threat to their material well-being” (Wright, 2010, p. 57). Rather, most of them tolerate the status quo because—for now—it brings more benefits than costs. As Chen and Dickson note, the “continuation of regime support is contingent on the government’s policy performance” (2010, p. 17).

Nonetheless, business leaders very seldom criticize government policies publicly. Usually, they critique and convey concerns about *profitability* to policy makers behind closed doors. Many domestic entrepreneurs have been socialized to adhere to a legal tradition of an authoritarian developmental ethos. Its effect is a benign precept that upholds that social and political stability benefit Chinese society as a whole, including business, because stability is a prerequisite for sustained economic growth, which in turn generates order and a more harmonious society.

Yet it is noteworthy that minor cracks may be emerging in relations between government officials and capitalists in the Internet and communications sector. Two examples of industry opposition in recent years stand out as exceptions to the general trend of submissiveness. First, opposition was mounted to “Green Dam youth escort software,” an effort by the Ministry of Information Industry to have all makers of laptop computers install screening software called Green Dam on notebooks sold in China (Foster & Moore, 2009, para. 4). The government’s failure to implement Green Dam suggests that there was a limit to industry passivity, although the larger share of complaints may have originated with foreign business organizations and liberally inclined domestic journalists. Second, when Google decided to shut down its search engine in Mainland China and instead move to freer Hong Kong, some business leaders argued that this move would be detrimental to business innovation in the ICT sector.⁵ In line with this trend, in recent years there have emerged indications that some business leaders in the new media sector are worried that China’s erection of barriers to information flows may have long-term negative consequences for

⁵ At the China IT Leader Summit in Shenzhen on March 28, 2010, Tian Suning of Media China Corporation said it was unwise to turn Google into an enemy of China, and Ding Jian of AsiaInfo even questioned the short- and long-term wisdom of the Chinese government’s censorship policy. However, not all Chinese Internet entrepreneurs and businesses were openly supportive of Google. Industry analysts believed that the domestic search engine Baidu played some part in the drama that ultimately forced Google to leave the Mainland China market, (China Digital Times, 2010). China’s Top IT Entrepreneurs Call for Internet Special Zone. Retrieved from <http://chinadigitaltimes.net/2010/03/chinas-top-it-entrepreneurs-call-for-internet-special-zone>

business. This concern is more prevalent among social networking service (SNS) companies than among those providing traditional Internet services. The biggest SNS companies—usually conglomerates consisting of different departments—are mostly drawn to this segment by having catered to consumers as news aggregators in the form of Web, friend-sharing, and service portals such as Sina and Renren. Tencent differs somewhat, insofar as it started out as a peer-to-peer communication platform. Of all businesses in the Chinese Internet industry, Tencent and Sina are among the companies that are closest to the citizen public, providing it with a plethora of news and communications services today. Unlike companies that deal with hardware, software, or Internet service provision, they have their ears very close to the ground. Tencent, with its background as a communications software developer, seems even more attentive to consumer whims than Sina is. Because these companies must cultivate great awareness of grassroots trends and sentiments, lest the networking public abandon them, the hitherto servile attitude of the segment's business leaders could change and is, to some extent, conditional. However, divergence from business as usual is discernible mostly when it concerns industry strategy and fiscal costs of surveillance rather than individual or societal freedom.

The Research Problem and Methodology

The research problem of this article concerns the strategies that professionals and business leaders in the social media sector adopt to fulfill their paradoxical role of both facilitating and containing freer speech. The strategies, perspectives, and values of industry professionals are as important to study as are the implications of the informational structure and concomitant ICT diffusion that these very individuals introduce. This is especially so in China, where increasing evidence of a cadre-capitalist interest alliance crisscrossing many economic sectors urges closer scrutiny of ICT entrepreneurs. This task has become more urgent as the race to stem the sociopolitical consequences of ICT diffusion continues apace in China after the Arab Spring of 2011 (Branigan, 2011, para. 1), and amidst the sensitive, once-in-a-decade leadership succession in the CCP in the fall of 2012 (Johnson, 2012, para. 2). Herein lies a pertinent and complex research problem concerning the perceptions of those who are trusted with rolling out this new infrastructure, setting up communicative platforms, and then supervising citizens' use of them. The research questions that follow on this problematic are: How do private social media businesses deal with the burden of delegated control of microblogs? How does the dilemma of principal-agent relations manifest itself in a real-world case such as real-name registration?

More than ever before, responsibility for policing online society is delegated to lower-level entities in the long chain of control that begins with Zhou Yongkang, the Politburo Standing Committee member who was in charge of propaganda and domestic security until the 18th National Party Congress in November 2012 (Lagerkvist, 2006, 2010; Weber & Lu, 2004, 2007) and, since the Wenzhou high-speed train crash in 2011, this delegation of control to microblog providers have increased even more. (Lagerkvist, 2011). Study of the development of social media and outsourced control of them involves a principal-agency dilemma, whereby original tasks and intentions may be compromised (Niskanen, 1968). In the Chinese context, this dilemma has been studied from various political economy angles. Studies focusing on this problematic against the backdrop of a fragmented authoritarian state range in topic from local communist cadres' actions to pacify social protest in rural areas of the Chinese hinterland (Edin, 2003), to delegation of control in the industrial and fiscal sectors (Solnick, 1996), to bureaucratic

struggles that led to a competitive system of sovereign wealth funds (Eaton & Zhang, 2010).

The extent of ICT-sector business executives' adherence to Internet and media policies has not been sufficiently researched.⁶ Few scholars have looked in-depth at the thorny relations between new media businesses and the party-state (Lagerkvist 2006, 2010, 2011; Min 2012; Weber & Lu, 2004, 2007). Popular and journalistic accounts often implicitly assume that professionals working with digital media communications, in China and elsewhere, "ought to" adopt ideas of freedom of speech and information more easily than professionals in other business sectors, state-owned companies, or the public sector at large (Saxenian, 2007; Sheff, 2002). This assumption likely derives from the fact that many Chinese companies in the ICT sector absorb start-up capital from foreign venture capitalists and are listed on foreign stock exchanges, such as NASDAQ. But while these companies may indeed be somewhat more independent than state-owned commercial enterprises that rely on state investment and have CCP officials as board members, reality is decidedly more complex.

Ethnographic Fieldwork Study

Based on ethnographic fieldwork conducted in Beijing during the fall of 2011 and devoted to understanding the strategies of the two major microblogging media companies Sina and Tencent, this article interrogates the nature of private entrepreneurial capitalism in the new media sector within the political-authoritarian context of contemporary China. In September and November 2011, interviews were carried out with 14 informants: 12 social media professionals and executives, as well as two journalists employed by traditional media organizations in Beijing. I interviewed staff at different administrative levels, that is, in junior and senior positions in the editorial departments of the social media companies Sina and Tencent at their headquarters in Beijing—eight persons at Sina and four persons at Tencent. The strategy for selecting individuals to interview relied on previous contacts with, and recommendations of, key interlocutors and long-time acquaintances of mine within the Chinese Internet industry in both Beijing and Shanghai. I also interviewed two senior journalists from the investigative news program *News Probe*, broadcast by China Central Television (CCTV), about their personal views, as well as the perspective of the CCTV leadership, on the rise of Weibo in society and among traditional journalists.⁷ The interviews, all conducted face-to-face, lasted from 60 to 90 minutes and followed an open-ended interview question guide. The questions began with more general issues, such the Internet market in China, and moved on to cover relations with authorities such as the government regulator of the State Council Information Office, the role of microblogs in Chinese society, and more practical aspects of issues of social control.

The in-depth interviews were complemented by contextual analysis of policy documents and legal texts as well as reading of major Chinese newspapers' accounts of rumormongering on Weibo about media

⁶ The party-state norm is articulated by and manifested in the policies and ideology of the CCP and CCP-controlled government and officialdom. As a practical implication, the party-state is on constant alert to prevent social disorder, maintain stability, and attain the "harmonious" coexistence of different forces and interests in society and on the Internet.

⁷ All interviews were conducted in Chinese, under the condition of maintaining the anonymity of the informants.

events and social protests. During the fieldwork period I mostly followed comments and news items in three major, influential Chinese newspapers on the topic preoccupying the public in September 2011: the Wenzhou train crash and how accountability for the tragedy was made possible through Weibo discussions among the public. To contextualize the questions in my interview guide, I followed the news on the unfolding of this particular government accountability crisis and the debate on real name registration during the fieldwork period from September 7 to September 28 in the *Beijing Youth Daily*, the *People's Daily*, and *The Southern Daily*. I chose these particular newspapers over other mass media outlets such as television and radio because their news reports on both the train crash and the Weibo-based rumormongering were heavily referred to by Sina's Web portal news aggregator. The legal texts that both informed my interview guide and inspired some of its questions were laws and regulations that specifically regulate the dissemination of news and information by Internet companies. The most important regulation regarding Weibo—City of Beijing's Rules for Development and Administration Regarding Microblogging Clients—was in the preparation stage during the fieldwork period (Xinhua News Agency, 2012), and the informants were asked about its content and potential efficacy. Moreover, the notices by Sina and Tencent to their respective user base, and policy statements and requirements made by state official media and government authorities, regarding new principles and requirements to lawfully "punish law-breakers" and rumormongers on Weibo and other social media. Such contextual material and readings are essential to conducting in-depth qualitative studies in an authoritarian country such as China, not only to inform the questions in the interview guide, but also because informants' statements need to be cross-checked against other sources.

Findings and Analysis

Microblogging Businesses and Free Speech

Many media companies, both new and traditional, have set up microblogging services on their websites, but Sina and Tencent are the biggest players in this segment of the social media world. On August 14, 2009, Sina announced that registration on Sina's microblog service, *Weibo*, its equivalent of the Twitter microblog, was open to Chinese netizens. By May 2011, the company reported that it had reached 140 million users, and by the end of 2011, about 300 million microblogs were in use. If the April 2012 statistics from the two Chinese microblog giants are to be taken seriously, they each have 300 million registered users. Since microblogs were introduced to the Chinese online world in 2009, they have (like many Internet applications and platforms before them) caught the attention of numerous foreign and Chinese scholars, journalists, and policymakers. Although these two companies obviously cannot represent the whole social media segment (encompassing state-owned, collective, foreign-owned, privately owned businesses), a few generalizable insights may nevertheless be drawn.

The microblogging sphere has been called China's first "free speech arena," *The Economist* magazine has argued that the impact of Chinese microblogs "cannot be overestimated," and their progression as vehicles for public opinion formation has even prompted observers of Chinese politics to claim the Internet has become a "virtual political system" (Economy & Mondschein, 2011, para. 2). Although the above statements are exaggerations, microblogging does pressure the government to pay more attention to stirrings of genuine public opinion. As a consequence, microblogs have been particularly

singled out and targeted by state policy, and even received high-profile visits from members of the standing committee of the politburo of the CCP.⁸ Weibo postings, which are limited to 140 Chinese characters, are shared with many other users in real time, forcing social media companies to remove sensitive postings around the clock. Sina Weibo, with built-in features that generate multiple user behaviors, contains more user-generated content than Twitter. Although Chinese microbloggers refer to official media sources just as users of Twitter do, they do it less (Huberman, Asur, & Yu, 2011), so retweets and "trending topics on Weibo mostly originate from the unofficial information space. Weibo therefore contains more user-generated content than Twitter. Other reports, however, speak of large numbers of automated retweets and "zombie followers" on Sina Weibo (*The Economist*, 2012, para. 5).

Postings in chat rooms and blogs, texting, and Skype telephony also perplexed the government agencies responsible for maintaining social stability on their arrival. However, after periods of trial and error, party-state agencies at various administrative levels managed to rein in freewheeling discussions. Now, the rapid interactions between the more than 100 million messages posted daily make Weibo messages an even greater challenge. As the government has observed, one message is enough to set off a destabilizing rumor that may have a devastating effect (Chin, 2011, para. 1). And many recent incidents have gone viral and been picked up by mainstream media because of information cascades triggered by Weibo. Researchers at Shanghai's Jiaotong University reported that new media outlets such as Weibo were the first reporters of 65% of the 138 nationwide public opinion "hot events" that made headlines during 2010 (Chinese Society Public Opinion and Crisis Management Report 2011, 2011). Most of these events occurred when frustrations over local power abuse led to social protest.

The author's ongoing fieldwork indicates that some younger professionals and mid-level managers are beginning to embrace a more liberal attitude to free speech. As one manager of a social media division at Tencent argued: "Regarding the stance on free flow of information, I think that all companies that are in this line of business want more, not less freedom and narrower information flow. That is only natural."⁹ This statement goes some way toward showing that whereas other industry sectors in China may "accept authoritarianism," parts of the ICT sector merely tolerate authoritarianism for now. This points to a transformation in outlook over the past decade, given that in 2004 and 2005, when the author interviewed Internet industry professionals in Beijing and Shanghai, they were more prone to accept state control as a given good for both society and business (Lagerkvist 2005, 2006). Today, however, they seem to expect policy outcomes to favor them as a quid pro quo for their commitment to uphold social order. That a majority of entrepreneurs of new media and Internet businesses would resist Internet controls on any significant scale, however, is not consistent with Chinese realities, at least not in the short term.

Few signs of tension are apparent between social media entrepreneurs and the authoritarian capitalism propelling the legitimacy of the CCP. Apart from AsiaInfo's Ding Jian, no high-profile business

⁸ In the wake of the public opinion storm on Sina's Weibo after the high-speed train crash in Wenzhou in July 2011, the politburo member in charge of domestic security, Zhou Yongkang, visited Sina headquarters in August to learn more about the operations of the company's Weibo service.

⁹ Interview with mid-level program manager of Tencent's microblog division at the company's Beijing office, September 6, 2011.

leader has stepped forward and problematized government policy on the grounds that a free information flow is good for society.¹⁰ Thus, the existing consensus is primarily between red capitalists, especially the dominant SNSs, and the Chinese Communist Party. For now, China's police and security organs are confident they can handle the challenges presented by the new communications technology and social media used by different actors in society. Increasing sums from the national budget go to upholding domestic security and political stability, augmented by the delegation of censorship and surveillance practices to Internet companies that add to stability enhancement from their own budgets.

The Real-Name Registration Waltz

State regulators in China, wary of digital communication's potential to become a breeding ground for political challenges and social instability, have toyed for years with the notion of establishing a "real name" registration system for Internet users. Until the deadly high-speed Wenzhou train crash of August 2011, arguments in favor of establishing real-name registration and outlawing individual postings on platforms that drive online public opinion were weaker than those against. Since 2005, state officials and their traditional media mouthpieces such as the *People's Daily* newspaper and CCTV have waged a battle of opinion against elements of society over this issue. Legal practitioners, university academics, economists, and business leaders as well as the security apparatus have all weighed in. Unsurprisingly, the State Council Information Office, the state bureaucracy's ultimate arbiter of media control, has long shown keen interest in the possible implementation of a real-name system for Internet users. By September 2006, Beijing Municipality officials were expressing a wish to extend the real-name registration system to require individual bloggers to register under their real names. Faced with resistance from academics, Internet activists, and some quarters of the Internet industry, however, the authorities put the issue on the back burner. Yet occasional academic studies, probably with official support, have been published to ostensibly show how popular attitudes regarding anonymity have changed over time.¹¹

Notably, as the popularity of microblogs has grown, leaders and professionals of the largest microblog providers, Sina Corp and Tencent, have been relatively silent about both censorship issues and related costs,¹² as well as the role microblogs play in political life in China. Charles Zhao, the CEO of Sina Corp, has been very reluctant to comment on the monitoring practices of Sina's Weibo staff, claiming that doing so would not be constructive (Epstein, 2011, para. 12). As the source of the least controllable mass medium in China today, microblog providers have no choice but to acquiesce to laws, regulations, notices, and policy statements issued by various government regulators. In August 2011, high-level CCP leaders such as Mayor of Beijing Liu Qi and Zhou Yongkang, the politburo member in charge of propaganda, have

¹⁰ Ding Jian actually ventured to talk about a uncensored Internet in the southern experimental city of Shenzhen at the IT Leaders Summit in 2010.

¹¹ One such study, a survey conducted in Shanghai by the Chinese scholar Zhao Yawen, showed quite counterintuitive results: the majority of the 607 respondents in three districts of Shanghai were in favor of establishing a real-name registration system. Zhao concluded that "there is a widespread and great worry among people about the current Internet environment" (Zhao, 2008, p. 327).

¹² A Sina mid-level manager interviewed in Beijing by the author on September 22 said the costs for monitoring Weibo "do not constitute a large part of our budget."

appeared at the headquarters of both Sina and Tencent to harangue staff to help create a "healthy" Internet environment (Wines & Lafraniere, 2011, para. 4).

Their visits followed a summer of scandals that were hotly debated on Weibo and other social media. Chief among these were a citizens' outcry over perceived corruption and incompetence in the Ministry of Railways, seen as the underlying causes of a high-speed train crash in Wenzhou Province on July 23, and an environmental protest in the city of Dalian organized through social media in early August 2011 (Larson, 2011, para. 2). After these public outcries, the government launched a campaign in the state-owned media and among quasi-NGOs against the rumormongering on Sina Weibo (Hille, 2011, para. 1). Sina Corp lost no time showing netizens that the company was taking the government's concerns to heart. On August 29, Sina announced that two Weibo users' accounts had been suspended for one month because they had spread false rumors regarding a murder case and embezzlement at the Red Cross Society of China (Wines and LaFraniere 2011, para. 5). However, there is nothing really new about the party-state's attempt to rein in Weibo. Precedents include the campaigns to regulate and constrain Web portal journalism in the 1990s, and later chat rooms, bulletin board systems, blogs, and mobile telephone text messages.

What is new is the sense of urgency regarding what many Internet users would say is truth seeking, academics would call crowdsourcing behavior, and government media and party leaders insist on calling rumormongering. The growth of real-time microblogging coincided with a series of political and moral scandals culminating in the Wenzhou train crash in 2011, and the fact that this was spotlighted on Sina's microblogging platform in particular seemed to seal the fate of anonymous tweets on Chinese Weibo. In the fall of 2011 Beijing Municipality issued new regulations requiring Sina and other microblog hosting companies to implement a real-name registration system as of March 16, 2012. The advent of the new regulation somewhat changed the tone and general atmosphere of cooperation between industry and state regulators. Sina's CEO Charles Zhao, for example, who had to accept the establishment of a real-name system for the Weibo platform, grudgingly warned of the real-name system's longer-term consequences for company profitability.¹³

During the first month of the system's operation, only a small minority of Sina Weibo users registered under their personal identity or mobile phone number.¹⁴ This is remarkable, as a month of unprecedented, spectacular upheaval in the top leadership began in mid-March 2012 with the sacking of Bo Xilai, the charismatic politburo member and party chief of Chongqing. Bo's dismissal led to an outburst of discussion on Sina's Weibo platform. After Bo Xilai's downfall, rumors flew of a coup in central Beijing on March 20, whereupon Sina announced, probably on the orders of the State Council Information Office, a three-day suspension of the commentary section on Weibo (Minter, 2012, para. 2).

¹³ "We can't guarantee that stricter policies won't appear later on. This will impact the growth of our user base and negatively effect user activity." Retrieved from <http://www.voanews.com/chinese/news/20120228-sina-weibo-140701313.html>

¹⁴ According to one report, as few as 30% of users complied by registering with their full names on March 16.

It is puzzling, however, that against the background of a political struggle and purge in the top leadership, the measures taken by Sina and Tencent fell short of the harsher stance of traditional mass media such as CCTV and the *People's Daily*, which along with the quasi-governmental Internet Society of China (ISOC) strongly condemned the irresponsible rumormongering on Chinese microblogging platforms (Millward, 2012, para. 1). These state-controlled organizations, especially ISOC, called on Internet companies to enhance their "social responsibility" and "strengthen internal control mechanisms" to eliminate destabilizing content on Weibo and similar platforms. Then in late April, Sina made public its decision to close the accounts of users who had irresponsibly disseminated "malicious rumors" of a coup in Beijing (Associated Press, 2012, para. 1). Also in late April, and somewhat surprisingly given the ongoing rumor crackdown, Sina launched a platform for submission of news tips from citizen journalists. This action could be viewed as a subtle riposte against the traditional state mass media's general rumor-busting campaign directed at Sina and other microblog companies (China Internet Watch, 2012). Throughout spring 2012, these events played out extensively in both traditional and new mass media in China, much to the chagrin of "various state agencies and ISOC. Revisiting the principal-agent dilemma in the dynamic social media segment of China's communications technology sector is thus an important task.

Revisiting the Principal-Agent Dilemma

Why did a repressive state such as China trust business enterprises outside the state system to implement costly policies for monitoring microbloggers? Seeking to shed light on the foundation of the state's confidence, Steven Solnick's comparative study of the Soviet Union and China during the 1980s asked why the leash of power has lengthened over time. Solnick showed how the central government in Beijing managed to retain control over lower levels of the bureaucracy amidst far-reaching decentralization: China maintained a "reputation" of enforcing stringent sanctions if disobeyed, so outsourcing of sensitive management responsibility was less a problem there than in Russia. This experience may explain why, since the end of the 1990s, the once-centralized guardianship and censorship of the media system has gradually transformed and dispersed to commercial Internet service providers, blog service providers, and now microblog providers such as Sina and Tencent. Thus, the Chinese government's successful control over media industries in recent years and its generally good track record of handling principal-agent dilemmas explain why today it dares to outsource control of even sensitive matters such as public opinion management. The abovementioned study pointed to contentious sociopolitical and fiscal issues that nonetheless led to happy endings for leaders at the apex of officialdom. As mentioned earlier, however, the social media businesses of the ICT sector make for an altogether different case because they are located outside the traditional lines of direct control by the party-state bureaucracy. Studies of the principal-agent dilemma have mostly concerned situations *inside* state bureaucracies and private firms. That a late Leninist party-state would delegate media policy implementation to private media actors is a rather novel phenomenon. Implementation of policy and law in China is already often slow and cumbersome, even within layered officialdom and its more conventional chains of command (Chen, Li, & Otto, 2002; Diamant, Lubman, & O'Brien, 2005). As the official figures in State Council reports to the national legislature in 2010 and 2011 attest, the budget for domestic security is now larger than the budget for national defense (Reuters, 2012). Delegating surveillance to private companies could lead to foot-dragging, as it also puts an extra financial burden on businesses. But so far

for the Chinese party-state, the scheme to let companies do frontline spying on users of social media has been a cost-effective strategy of monitoring deviancy in an emergent, rapidly pluralizing civil society.

Leaks of lists of sensitive keywords compiled by commercial Internet businesses to accommodate party-state pressure, and the overall context of the give-and-take processes involving propaganda officials and actors in the state-controlled media system, point to a potential principal-agent dilemma in the social media sector. Reports in the immediate aftermath of the implementation of the real-name system in March 2012 indicated that Sina's design and operation of the system was far from perfect, full of loopholes offering abundant possibilities to disregard or compromise using false identities (Larson, 2012). Yet this seeming breach of trust between the principal (party-state) and the agent (social media business), also indicated by CEO Zhao's signals about the new regulations' impact on revenue to shareholders and policy makers, is balanced by the forthcoming behavior of Chen Tong, Sina's vice president responsible for all content uploaded and posted on the microblogging platform, who has made a show of Sina's pro-government credentials by inviting and promoting government Weibo accounts.

Sina's organizing of conferences about government Weibo can be viewed as a two-pronged strategy to display loyalist credentials while also creating possibilities to fraternize with officials and directly lobby for company positions on important policy issues.¹⁵ The party's Central Propaganda Department has often summoned major Internet companies to secret or semipublic conferences to admonish executives about their obligation to participate in the construction of a "healthy Internet." Some of these meetings have produced joint agreements in which firms undertake to do their part to attain this moral objective. The intention is to maintain hegemony over political discourse and cascading information flows. Therefore, Chen Tong's initiative in November 2011 to organize a meeting about Weibo can be seen as a clever negotiating strategy of "staging" forthcoming and responsible behavior. At the same time, subtle complaints about the delegation of social control may generate consolation prizes in the form of policy rewards. As one of the leaders of ISOC argued: If the ICT capitalists want to stay in operation, they must obey the laws; in return, they also get service and support from the government.¹⁶

Such "policy kickbacks" are in fact needed, since new media companies find themselves at a distance from the benefits that accrue to state-owned companies. For example, non-private firms benefit greatly from easier access to credit from China's state banks. Thus, a degree of independence from CCP policy makers and general oversight over industry sectors brings with it the vulnerability of being outside the core cadre-capitalist alliance and profit cluster.¹⁷ Initial and ongoing fieldwork observing the party-state's strategic calculus of carrots and sticks indicates that companies that implement censorship and surveillance policy may receive policy benefits in return. As a top executive of Sina stated, "Meeting with government leaders means there is an opportunity for us too, to present our industry concerns—about

¹⁵ Sina and Chen Tong organized a conference on this theme in November 2011 in Beijing.

¹⁶ Interview with senior company executive in Beijing, September 27, 2011.

¹⁷ There is little evidence of party cells or party committees operating inside new media businesses. However, Freedom House's *China Media Bulletin* reported in March 2011 that such cells indeed existed at Sina Corp.

working permits and household registration for our workers, as well as concerns about taxes."¹⁸

The stick is the hovering presence of arbitrary sanctions imposed by a state that only selectively adheres to constitutionalism and the rule of law, especially with regard to issues of social and political stability. The ongoing waltz between state regulators and entrepreneurs in the social media sector is a balancing act of give and take amidst pluralist, generational, and ideational changes in society at large. Chinese ICT businesses have to obey the municipal, provincial, and central regulations and policies to monitor citizens, and only a few of them do so reluctantly,¹⁹ out of concern for not receiving compensation in return for their services to the state more than from sympathy with Internet rights activism. Yet there is probably a bottom line for social media companies such as Sina and Tencent. If social tensions increased and the Chinese government demanded even more real-time deletions, pushing company costs even higher, then shutting down microblog services, perhaps voluntarily, is a real option (Russell, (2012)).²⁰

Conclusions

Since the late 1990s, the state has decentralized and delegated more responsibility from bureaucracy to new media companies across the whole spectrum of the ICT business sector, from hardware producers of laptops to online service and microblogging providers and Internet cafés. This article has problematized these businesses' compliance with the party-state's control policies in the light of an evolving principal-agent dilemma embedded into the law and policy implementation chain of social control. The findings on the research questions the article poses about how private social media businesses deal with the burden of delegated control of microblogs—that is, the dilemma of principal-agent relations in a real-world case such as real-name registration for microblog users—show that the party-state has temporarily solved this dilemma by maintaining the risk of sanctions for the industry while rewarding compliant businesses with policy rewards. Equilibrium and continued compliance, however, are contingent on the state's continued reward of policy kickbacks.

Thus, the social media, their providers, and the authoritarian information order coexist uneasily. The party-state cannot and does not fully trust businesses in the social media sector. Since March 16, 2012, the difficulties of establishing a fail-safe real-name registration system for microblogs to prevent leakage of sensitive rumors have illustrated that the mutually beneficial alliance of cadre and capitalist interests cannot be taken for granted. Outsourcing of social control to social media businesses has been cost-effective, but this does not mean the security and propaganda apparatus can sit back and relax while

¹⁸ Interview with Sina manager in Beijing, September 21, 2012.

¹⁹ Interview with Tencent manager in Beijing, September 23, 2011.

²⁰ According to a NASDAQ filing in April 2012, Sina stated that "If in the future the PRC [People's Republic of China] government authorities decide to restrict the dissemination of information via microblogging services or online postings in general, Weibo could be impaired or even ordered to shut down." Jon Russell, (2012, April 28) Chinese Web giant Sina admits slow application of microblog rules, fears new government crackdown. Retrieved from <http://thenextweb.com/asia/2012/04/28/chinese-web-sina-admits-slow-application-of-microblog-rules-fears-new-government-crackdown>

private entrepreneurs undertake the costly and difficult task of monitoring the online expressions and behaviors of Chinese netizens. Sina's not-so-diligent implementation of a real-name registration system for microblogging during the politically turbulent spring of 2012 points to growing inconsistencies that perhaps exist on both ends of the spectrum of relations between officials and ICT-entrepreneurs, given that not every cog in the state apparatus responsible for regulating and monitoring the online public sphere works efficiently to implement policy, either. This situation suggests potentially more far-reaching consequences for principal-agent relations between party-state cadres and capitalists. To bridge this lacuna in the research literature, more investigation and research must further unpack various aspects of the uneasy alliance between capitalists in the social media sector and state officials in charge of maintaining social stability.

This phenomenon is set to become a growing concern in coming years, as the expansion of social media communication platforms such as microblogging for citizens has also laid the foundation for accountability politics. The good news, for those Chinese who wish for political liberalization, is that the "dictator's dilemma" of having to introduce digital networks to maintain economic growth leads to more open systems of communication. Needless to say, the narrow interests of the current generation of conservative capitalist individuals in Beijing and Shanghai belong to a time context other than 18th-century Enlightenment Europe. Thus, the search for a "hidden transcript" in the mindsets of private entrepreneurs (Scott 1985) often amounts to projections of well-wishing Western interests, seeing an industry rebellion here, and social protests as anti-government political protests there.

Whereas some younger professionals may travel a path from accepting the information order to merely tolerating it while hiding their own preferences for political reform, others pragmatically accept that "this is China's political system and the country does need stability."²¹ This nonpolitical, nonideological stance on the part of Chinese ICT entrepreneurs—a consistent theme for well over a decade—is still the majority mindset within social media businesses. These companies continue to implement state policies to contain the locked-in public sphere and maintain control of dissent and deviancy. For the Chinese party-state, therefore, the likelihood that social media entrepreneurs are aspiring democrats is less of a challenge than the ongoing deterioration of principal-agent relations caused by economic woes.

²¹ Interview with manager at Sina Headquarters in Beijing, September 14, 2011.

References

- Associated Press. (2012, April 25). China shuts 'rumour' blogs in Internet crackdown. Retrieved from <http://www.google.com/hostednews/afp/article/ALeqM5hETFwHOvyp9s2RxIzMSA7Ue9mfQQ?docId=CNG.73fed03ef6a70f61d4d589ffab9966cc.371>
- Branigan, T. (2011, February 27). China's Jasmine Revolution: Police but no protestors line the streets in Beijing. *The Guardian*. Retrieved from <http://www.guardian.co.uk/world/2011/feb/27/china-jasmine-revolution-beijing-police>
- Chen, J., Li, Y., & Otto, J.-M. (2002). *Implementation of law in the People's Republic of China*. The Hague, Netherlands: Kluwer Law International.
- Chin, J. (2011, July 26). Weibo watershed? Train collision anger explodes online. *The Wall Street Journal*. Retrieved from <http://blogs.wsj.com/chinarealtime/2011/07/26/weibo-watershed-train-collision-anger-explodes-online>
- China Digital Times. (2010, March). China's top IT entrepreneurs call for Internet special zone. Retrieved from <http://chinadigitaltimes.net/2010/03/chinas-top-it-entrepreneurs-call-for-internet-special-zone>
- China Internet Watch. (2012, April 19). Sina Weibo launched a platform for news tips submission. Retrieved from http://www.chinainternetwatch.com/1440/sina-weibo-baoliao/?utm_source=CIW+Newsletter&utm_medium=email&utm_campaign=885cc8c8a1-RSS_EMAIL_CAMPAIGN
- Chinese Society Public Opinion and Crisis Management Report 2011. (2011). Retrieved from <http://china-media-news.org/2011/07/18/new-chinese-society-public-opinion-and-crisis-management-report-2011-65-of-hot-events-first-on-new-media>
- Diamant, N., Lubman, S., & O'Brien, K. (2005). *Engaging the law in China*. Stanford, CA: Stanford University Press.
- Dickson, B. (2007). Integrating wealth and power in China: The Communist Party's embrace of the private sector. *China Quarterly*, 192, 827-854.
- Dickson, B., & Chen, J. (2010). *Allies of the state: China's private entrepreneurs and democratic change*. Cambridge, MA: Harvard University Press.
- Eaton, S., & Zhang, M. (2010). A principal-agent analysis of China's sovereign wealth system: Byzantine by design. *Review of International Political Economy*, 17(3), 481-506.
- Economy, E., & Mondschein, J. (2011, April). China: The new virtual political system. Retrieved from <http://www.cfr.org/china/china-new-virtual-political-system/p24805>

- Edin, M. (2003). State capacity and local agent control in China: CCP cadre management from a township perspective. *China Quarterly*, 173, 35–52.
- Epstein, G. (2011, March 14). Sina Weibo. *Forbes Asia Magazine*. Retrieved from <http://www.forbes.com/global/2011/0314/features-charles-chao-twitter-fanfou-china-sina-weibo.html>
- Foster, P., & Moore, M. (2009, July 2). China has not given up Green Dam plan. *The Telegraph*. Retrieved from <http://www.telegraph.co.uk/news/worldnews/asia/china/5720396/China-has-not-given-up-Green-Dam-plan.html>
- Hille, K. (2011, August 16). Microblogs Challenge China's 'Rumour Buster.' *Financial Times*. Retrieved from <http://www.ft.com/cms/s/0/a02331a2-c64c-11e0-bb50-00144feabdc0.html#axzz1XIXcyQ2t>
- Howard, P. (2010). *The digital origins of dictatorship and democracy*. Oxford, UK: Oxford University Press.
- Huberman, B. A., Asur, S., & Yu, L. (2011). What trends in Chinese Social Media [Working paper, Hewlett-Packard Labs, Palo Alto, CA, July 18]. Retrieved from http://www.hpl.hp.com/research/scl/papers/chinatrends/china_trends.pdf
- Johnson, I. (2012, March 19). China's Falling Star. *New York Review of Books*. Retrieved from <http://nybooks.com/blogs/nyrbooks.com/blogs/nyrblog/2012/mar/19/chinas-falling-star-bo-xilai>
- Kedzie, C. (1997). *Communication and democracy: Coincident revolutions and the emergent dictators*. Santa Monica, CA: Rand Dissertations.
- Lagerkvist, J. (2005). The rise of online public opinion in the PRC. *China: An International Journal*, 3(1), 119–130.
- Lagerkvist, J. (2006). In the crossfire of demands: Chinese news portals between propaganda and the public. In J. Damm & S. Thomas (Eds.), *Chinese cyberspaces: Technological changes and political effects*. Abingdon, UK: Routledge.
- Lagerkvist, J. (2010). *After the Internet, before democracy: Competing norms in Chinese media and society*. Bern, Switzerland: Peter Lang.
- Lagerkvist, J. (2011). New media entrepreneurs in China: Allies of the party-state or civil society. *Columbia Journal of International Affairs*, 65(1), 169–182.
- Larson, C. (2011, August 23). The new epicenter of China's discontent: Dispatch from a city that wasn't supposed to be on the brink. *Foreign Policy*. Retrieved from http://www.foreignpolicy.com/articles/2011/08/23/the_new_epicenter_of-china_s_discontent
- Larson, C. (2012, March 22). Still the People's Republic of rumors. *Foreign Policy*. Retrieved from http://blog.foreignpolicy.com/posts/2012/03/22/still_the_people_s_republic_of_rumors

Millward, S. (2012, April 9). China's attempt to banish online rumours is as vague as the war on terror. *Techinasia*. Retrieved from <http://www.techinasia.com/china-internet-war-on-rumours>

Min, J. (2012). *Internet companies in China: Dancing between the party line and the bottom line*. Paris: IFRI, Centre for Asian Studies.

Minter, A. (2012, April 4). China's Internet censors decide comments are dangerous. Bloomberg News. Retrieved from <http://www.bloomberg.com/news/2012-04-04/china-s-internet-censors-decide-comments-are-dangerous.html>

Niskanen, W. (1968). The peculiar economics of bureaucracy. *American Economic Review*, 58(2), 293–305.

Reuters. (2012, March 5). China domestic security spending rises to \$111 billion. Retrieved from <http://www.reuters.com/article/2012/03/05/us-china-parliament-security-idUSTRE82403J20120305>

Russell, J. (2012, April 28) Chinese Web giant Sina admits slow application of microblog rules, fears new government crackdown. Retrieved from <http://thenextweb.com/asia/2012/04/28/chinese-web-sina-admits-slow-application-of-microblog-rules-fears-new-government-crackdown>

Saxenian, A. (2007). *The new Argonauts: Regional advantage in a global economy*. Cambridge, MA: Harvard University Press.

Scott, J. (1985). *Weapons of the weak: Everyday forms of peasant resistance*. New Haven, CT: Yale University Press.

Sheff, D. (2002). *China dawn: The story of a technology and business revolution*, New York: HarperCollins.

Siebert, F. S., Peterson, T., & Schramm, W. (1956). *Four theories of the press: The authoritarian, libertarian, social responsibility and Soviet communist concepts of what the press should be and do*. Urbana: University of Illinois Press.

Solinger, D. (1984). *Chinese business under socialism: The politics of domestic governance, 1949–1980*. Berkeley: University of California Press.

Solnick, S. (1996). The breakdown of hierarchies in the Soviet Union and China: A neoinstitutional perspective. *World Politics*, 48, 209–238.

The Economist. (2012, March 8). The power of microblogs. Zombie followers and fake re-tweets. Retrieved from <http://www.economist.com/node/21550333>

Tsai, K. (2005). Capitalists without a class: Political diversity among private entrepreneurs in China. *Comparative Political Studies*, 38(9), 1130–1158.

- Weber, I., & Lu, J. (2004). Handing over China's Internet to the corporations. *International Institute, New Media Entrepreneurs in China for Asian Studies Newsletter*, 33(9).
- Weber, I., & Lu, J. (2007). Internet and self-regulation: The cultural logic of controlled commodification. *Media Culture and Society*, 29(5), 772–789.
- Wines, M., & Lafraniere, S. (2011, August 26). Chinese protest suspensions of bloggers. *The New York Times*. Retrieved from <http://www.nytimes.com/2011/08/27/world/asia/27weibo.html>
- Wright, T. (2010). *Accepting authoritarianism: State-society relations in China's reform era*. Stanford, CA: Stanford University Press.
- Xinhua News Agency. (2012, July 7). *City of Beijing's rules for development and administration regarding microblogging clients*.
- Yu, P. (2012). The alphabet soup of transborder intellectual property enforcement. *Drake Law Review Discourse. Drake University Law School Research Paper No. 12-13*, June, 16–33.
- Zhao, Y. (2008). *Boke: Shengxing, shengcun, shengtai* [Blogs: Their life, existence, and ecology]. Beijing, China: China Social Science Publishing House.