

Red Capitalists in China

The Party, Private Entrepreneurs, and
Prospects for Political Change

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Introduction

ON July 1, 2001, the eightieth anniversary of the Chinese Communist Party (CCP), party leader Jiang Zemin made a stunning proposal. He recommended that private entrepreneurs be allowed to join the CCP, ending a ban imposed in August 1989 immediately after the suppression of the Tiananmen demonstrations. He claimed they were a new social stratum making significant contributions to the country's development and modernization, and therefore deserved a place in the ruling party. Since the key task of the party for more than two decades had been promoting economic growth, this seemed like an eminently logical proposal. The rapidly expanding private sector of the economy was the source of most new jobs and economic growth and absolutely necessary to the achievement of the party's goals. From the perspective of the party's orthodox leaders, however, there was nothing logical about Jiang's proposal at all. What could be more incongruous than having millionaires in a party created to represent the interests of workers and peasants? While Jiang's proposal made front-page news in the United States, where it was described as heralding yet another step away from communist rule, it also triggered a firestorm of acrimony by more orthodox party leaders. They accused Jiang, who was leader of the CCP, president of China, and the "core of the third generation of leaders," of violating party discipline for making the recommendation without first gaining the approval of the party's decision-making bodies, especially the Politburo and its Standing Committee. They claimed the proposal itself violated both the party constitution and its traditional principles. They called on the CCP to retract the proposal and rebuke Jiang's reckless behavior. Otherwise, they warned, his proposal would spell the end of the CCP.

Why was so much attention, for and against, given to this proposal? Most observers expect that continued economic reform will ultimately lead to political change in China. Advocates of change, in China and abroad, promote economic reforms as a way of indirectly achieving other goals. They hope that

by expanding the role of market forces, increasing the scope of privatization, and integrating China into the international community, pressures for democratization will become irresistible. For the same reasons, those who fear the loss of CCP leadership in China and the uncertainty that democratization would create want to limit the scope of the private economy and the presence of private entrepreneurs in the party. Both sides in this debate are in general agreement about the political implications of economic and social change in China arising from the reform and opening policies. They disagree, however, on whether those implications represent their best hopes and dreams or their worst nightmare.

THE PARTY, PRIVATE ENTREPRENEURS, AND PROSPECTS
FOR POLITICAL CHANGE

Why has the Chinese Communist Party survived, when most of the other ruling communist parties have not? This basic question has been a puzzle to scholars, policy makers, and perhaps even to the CCP itself. Given the central role the CCP plays in China's political system, the prospects for political change are very much related to the CCP's own leaders and policy preferences. Whether China will embark on significant democratization or not will depend in large part on whether the CCP decides to initiate or even tolerate such change. The evidence so far is quite clear: the CCP has repressed every popular movement calling for democratization and political reform. While it has undertaken a variety of steps to open the policy process and increase accountability, these have been limited steps that fall far short of the kind of democratization its critics are calling for.¹ In recent years, the political reform process has been slow and halting, at best. For instance, party leaders seem to support the importance of accountability by institutionalizing village level elections but have so far been reluctant to sanction higher level elections. Public approval ratings for party cadres, although now part of the equation in at least some areas, seem even less important.²

This question of the CCP's survivability is given added significance by the desire to maintain political stability in China. The priority given to political stability is one of the strongest and most enduring features of Chinese political

¹ Bruce J. Dickson, *Democratization in China and Taiwan: The Adaptability of Leninist Parties* (Oxford and New York: Oxford University Press, 1997); Minxin Pei, "Is China Democratizing?" *Foreign Affairs*, vol. 77, no. 1 (1998), pp. 68–82.

² Tyrene White, "Village Elections: Democracy from the Bottom Up?" *Current History*, vol. 97, no. 1 (September 1998), pp. 263–267; Lianjiang Li, "The Two-Ballot System in Shanxi Province: Subjecting Village Party Secretaries to a Popular Vote," *China Journal*, no. 42 (July 1999), pp. 103–118.

culture, and seems to be shared by both state leaders and members of society. The CCP has become part of the normal order of things in China. The vast majority of Chinese know no other political system through their own experience. There is a concern that if the CCP itself were to become weak or divided, and consequently unable to govern effectively, the country itself might devolve into chaos. This concern, whether misplaced or not, is a major obstacle to those who would like to garner more public support for political change and mobilize collective action to achieve it.

Not only do many Chinese seem to believe that the CCP is essential for maintaining political stability in China, many scholars also take for granted that political change will be initiated and managed by the CCP. An alternative scenario – a tumultuous process pushed from below, with the state unable to cope with demands for change – is almost unthinkable. Not because it is unlikely, but because the consequences of this type of change would be a period of prolonged instability and disunity in China that would have severe impacts on the economy and society, and would also likely spill over into neighboring countries, thereby disrupting the prospects for peace and prosperity throughout east and southeast Asia. This may seem like a worst case scenario, but it is also the one that China's leaders offer as the rationale for the continuation of their one-party state. They assert, and many in China agree, that the state has to maintain a strong hand over the political system and postpone, at least for now, more extensive political liberalization.

This project focuses on two fundamental issues: the adaptability of Leninist regimes; and the relationship between economic change and political change, particularly whether economic privatization leads to democratization. More specifically, it concerns the CCP's willingness and ability to adapt to the needs of economic development, the growing relationship between the party and the entrepreneurs, and the political impact of the emerging class of private entrepreneurs in China.

Party Adaptability

The political implications of China's economic reforms center on the adaptability of the Chinese Communist Party. Can it successfully adapt to the new economic and social environment its reforms are creating? Or is its ability to cope being undermined by these changes? In the midst of rapid economic change, scholars have identified trends that may be evidence of potential political transformation. On the one hand, entrepreneurs and skilled expertise are being recruited into the party. Co-optation facilitates adaptation by bringing into the party new elites who may invigorate it with new ideas and new goals.

In addition, local party and government officials are developing institutional ties with a variety of civic and professional associations in order to both promote economic change and integrate the state with key groups in society. These trends give hope to some that economic reform will eventually lead to gradual political change, allowing China's transition from communism to be more like Hungary or Poland (or even Taiwan) and thereby avoid the turmoil that accompanied political change in the rest of Eastern Europe and the former Soviet Union.

Along with these promising signs of transformation are contrary signs of disintegration. Large numbers of party members are abandoning their party responsibilities to pursue economic opportunities. Party and government officials are leaving their posts to go into the lucrative world of private business. Rank-and-file party members in the countryside are joining the "floating population," migrating to cities in search of high-paying jobs. The non-state sector of the economy is growing so fast that most enterprises do not have party organizations within them and few new members are being recruited from their workforce. In some rural areas, party organizations are paralyzed, recruitment of new members is declining, and lineage-based clans are competing with the party for influence. These are warning signs of disintegration, of a party unable to manage its members, to have sufficient links with the most dynamic sectors of the economy, or to control the society it governs.

As later chapters will demonstrate, the CCP is actively trying to adjust its organization and personnel to the rapidly changing economic and social environment its reforms are bringing about. These efforts have prompted debates within the party about whether these attempted adaptations can be reconciled with the party's traditions. At the same time, they have not fully satisfied the doubts of others about whether the adaptations attempted so far have gone far enough to remove political constraints on the economy, or even if the CCP is prepared to do so. At bottom, the debate inside and outside the party concerns the compatibility of a Leninist ruling party alongside a market economy.

Impact of Private Entrepreneurs

The second key theme of this book concerns China's "red capitalists," entrepreneurs with close personal and political ties to the CCP. Many of the most wealthy entrepreneurs formerly held high-level party and government posts, and some are even the offspring of China's leaders. A far larger number of private entrepreneurs are former mid-level officials, or simply rank-and-file party members who did not hold formal posts but left their previous jobs to go into business. This growing trend of leaving jobs in the party, government,

or state-owned enterprises to go into the private sector is popularly known in China as *xiahai*, literally to plunge into the sea. This group will be referred to as *xiahai* entrepreneurs throughout this book to distinguish them from another group of red capitalists: those who were co-opted into the party after demonstrating their entrepreneurial skills and business success. In many ways, this is the more interesting group in terms of its impact on the CCP. It is also the group that has been the source of discomfort for the party's orthodox leaders, as noted above.

The emergence of private entrepreneurs in China over the past decade or so has been one of the most striking and intriguing features of the reform era. Originally limited to very small scale operations by state policy and met with suspicion by society, the private sector in China now encompasses individually owned and operated enterprises at one end and large scale industrial and commercial enterprises with hundreds of workers and scope of operations that cover the whole country and even the international market at the other. Not only are they responsible for most economic growth and job creation, and therefore essential to the local economy and the careers of local officials, they are increasingly well organized and politically active. Entrepreneurs are also beginning to convert their economic influence into political power, for instance, by competing in village elections. These trends have generated a great deal of interest among observers, in light of the important role entrepreneurs have played in fomenting political change in other countries.

Assessing the Prospects for Political Change

Most studies on state-business relations and their implications for political change in China are based on either very broad trends or intensive work in one location, and sometimes in one economic sector. Both approaches have their virtues, but also their limitations. The macro approach allows us to identify general trends and dynamics that a more detailed look at individual cases may overlook. At the same time, it may miss important developments at the micro level that can lead to more general consequences. It also tends to have a centrist focus, paying special attention to the views among party and government leaders – the elite of the state – and less to the more diffuse economic and social elites. Local case studies, in contrast, can offer rich details about particular settings, but can also lose sight of the forest for the trees. More importantly, case studies cannot easily determine what is unique or peculiar and what is common to the system as a whole.

This study of China's red capitalists attempts to bridge this gap to better understand the political implications of economic reform. It begins with a look

at how the shift from the Maoist policies of class struggle to the economic reforms championed by Deng Xiaoping had major consequences for the party. This shift affected the party's recruitment policies, its network of party organizations, and its ability to monitor and control trends in society. The analysis then concentrates on the party's strategy of linking itself to the emerging private sector. One part of this strategy was to create a variety of business associations to which most businessmen would belong. Are these business associations used to maintain party control over the private sector or can they represent the views of their members and influence the state's policies? If so, that would be a good indicator that a civil society is emerging, with potential implications for further political change. In addition to these institutional links, the party is also linked to the private sector through individual red capitalists, both *xiaohai* entrepreneurs and co-opted entrepreneurs. Are the political beliefs and policy preferences of China's red capitalists significantly different from those of party and government officials? If so, they could become agents of change.

To get the data necessary to answer these fundamental questions, I used the party's own journals, books on political and economic trends published in China, and devised a survey project targeting private entrepreneurs and local communist party and government officials in China. The survey was successfully implemented in eight counties in 1997 and 1999. The counties were chosen to represent different levels of economic development and privatization. (See the Appendix to Chapter 3 for more details on the design of the survey.) These various sources of data will be used to investigate both the personal and institutional relationships that are developing between these two key groups in the course of reform. Of most importance are the survey data, the first of their kind to compare the political beliefs and behaviors of private entrepreneurs, including both red capitalists and non-party members, and the local party and government officials with whom they interact. By conducting the survey in eight different counties with varying levels of development, the data can show the impact of variations in the local context and other socioeconomic factors. They also allow me to test hypotheses suggested by previous case studies on the role of business associations and the political beliefs and policy preferences of private entrepreneurs. In short, this study will examine macro trends affecting the CCP, the specific relationship of the party and the private entrepreneurs, and the variations in individual beliefs and behaviors. By combining these different levels of analysis, this study will clarify whether the CCP is willing and able to adapt to the economic environment its reforms are bringing about, how the relationship between entrepreneurs and the CCP is changing the CCP itself and China's political system as a whole, and whether China's entrepreneurs can be agents of political change.

Introduction

Before beginning the evaluation of the CCP's adaptability and the political impact of China's red capitalists, this Introduction will first discuss the transformation of communist systems. It will review the different views on the possible political consequences of economic reforms and the role of civil society in the democratization of Leninist regimes and other authoritarian systems. This will create the backdrop against which the relationship between the CCP and the red capitalists will be examined.

THE DYNAMICS OF LENINIST REGIMES

Although we cannot predict the ultimate fate of the CCP, comparing the experiences of other Leninist parties can at least clarify the kinds of questions we need to be asking. The challenges faced by the CCP – how to liberalize its economy without destabilizing the political system, how to change its organization and attract new members in order to carry out new tasks, how to balance the need to adapt with the need to uphold party traditions – are not unique. Nor are the strategies it has adopted to meet these challenges. Whether it will be successful, however, will depend largely on the peculiarities of the Chinese context: the legacies of the Maoist era, past decisions by party leaders regarding the scope and pace of economic and political reform, the continued influence of orthodox voices at the apex of the political system, and the evolving relationship between state and society.

Most ruling communist parties have wrestled with the competing goals of pursuing political and social policies that are consistent with Marxist-Leninist goals and the more immediate and pragmatic task of economic production. Although both goals may be important to the party, they require rather different sets of policies that in practice may be counter-productive. Richard Lowenthal noted this dichotomy in party goals and the policies for achieving them, labeling the trade-off between utopia and development.³ When the party emphasizes utopian goals, it relies on ideology and propaganda to mobilize society to fulfill the party's agenda. It restricts the use of markets to distribute basic goods and services, relying instead on central planning. It also emphasizes the struggle against class enemies, using terror and other revolutionary tactics to demonstrate the party's resolve to eliminate real or potential opposition. Capitalists, landlords, and officials from the old regime and even their descendants are seen as politically suspect and persecuted, imprisoned, and sometimes killed for their assumed or actual opposition to communist goals. In contrast, during

³ Richard Lowenthal, "Development versus Utopia in Communist Policy," in Chalmers Johnson, ed., *Change in Communist Systems* (Stanford: Stanford University Press, 1970).

periods when development is the key goal, the party uses material incentives (e.g., higher wages, bonuses, access to consumer goods) to encourage greater productivity from workers and downplays ideological appeals. It allows wider use of markets, at least to supplement the planned economy. In its relations with society, it promotes reconciliation instead of the continuation of the class struggle, although it continues to punish “counter-revolutionaries.”

The fluctuation between utopian and development-oriented policies also has implications for the party’s recruitment policies. When the party emphasizes utopian policies, it needs people with good ideological awareness, mass mobilization skills, and loyalty to the party in general and the primary leader in particular. When the emphasis is on economic development, the party needs people with technical skills and managerial expertise. In China, these trade-offs in the party’s goals led to the policy debates and abrupt changes in party policy that characterized the Maoist era. They also contributed to the debates in the party’s recruitment and personnel policies that were prominent in the Maoist years and still resonate today, although with less intensity.⁴ As will be shown in later chapters, the debate over party goals and the proper recruitment and personnel policies attenuated in the post-Mao era were not entirely eliminated, even after the party abandoned class struggle and announced that economic modernization would be the key task in the party’s work.

In addition to these alternating policy cycles, Leninist parties are also concerned with establishing and maintaining their political authority. Ken Jowitt describes three stages of development common to Leninist regimes, reminiscent of the stages Huntington proposed for authoritarian regimes more generally: *transformation*, in which the elites and norms of the old regime are castigated and replaced; *consolidation*, in which the new regime solidifies the loyalty of its cadres and its domination over society, in part by drawing a clear line between state and society; and *inclusion* (what Huntington refers to as *adaptation*), in which the party attempts to integrate itself with the new social strata emerging as a result of the party’s development-oriented policies. Inclusion “refers above all to an attempt to expand membership in the regime in a way that allows politically coopted social elites or activists to maintain their social-occupational identity, and the party apparatus to maintain its institutionalized charismatic

⁴ For the policy cycles in the Maoist era, see G. William Skinner and Edwin A. Winckler, “Compliance Succession in Rural China: A Cyclical Theory,” in Amitai Etzioni, ed., *A Sociological Reader on Complex Organizations* (New York: Holt, Rinehart, and Winston, 1969). The cyclical nature of party policy continued into the post-Mao period, but with less intensity and less personal danger; for a description of the cycles of opening and tightening (*fang* and *shou*), see Richard Baum, *Burying Mao: Chinese Politics in the Age of Deng Xiaoping* (Princeton: Princeton University Press, 1994).

status.”⁵ In other words, the party co-opts new groups to prevent them from being threats to the party’s authority and allows them to maintain a collective identity apart from party membership. At the same time, the party continues to exclude dissidents and those it deems to be “counter-revolutionaries” from legitimate participation in the political system. In China, these policies of inclusion are clearly seen in the co-optation of private entrepreneurs and technical elites and creation of a host of civic associations, including business associations, to link state and society.

Key turning points for Leninist parties, therefore, are the abandonment of utopian policies for the sake of development and the transition from an exclusive to an inclusive orientation. As the party more closely approximates an “open system,” it is increasingly influenced by trends in its environment.⁶ To study the party in isolation from its environment is to ignore one of the main means of political change in a communist system. This does not imply that the party adapts quickly, easily, or even inevitably to its environment. But just as problems in American schools are largely caused by the social environment of which they are a part, so too are the CCP’s problems caused in part by the environment around it, which it helped create, and which it has tried to change.

The difference is that Leninist parties, unlike most organizations, have organizational resources that limit their dependence on the environment. They have a monopoly on legitimate political organization, which they defend zealously. They do not have to defend their record in the court of public opinion, although the shift toward inclusion and adaptation suggests they are interested in the views and support of at least some key groups in society. They control access to key jobs, financial resources, and nearly all political appointments. In short, they are the only game in town, politically speaking, and they use the resources they control to reward supporters and punish opponents.

⁵ Ken Jowitt, “Inclusion,” in *New World Disorder: The Leninist Extinction* (Berkeley: University of California Press, 1992), pp. 88–120 (originally published in *World Politics*, vol. 28, no. 1 (October 1975), pp. 69–97); the quote is from pp. 91–92; Samuel P. Huntington, “Social and Institutional Dynamics of One-Party Systems,” in Samuel P. Huntington and Clement H. Moore, eds., *Authoritarian Politics in Modern Society: The Dynamics of Established One-Party Systems* (New York: Basic Books, 1970), pp. 3–47. Jowitt offered these stages of development as an alternative to other models of change in communist systems, including Lowenthal’s, which he criticized for positing “a unilinear . . . de-utopianization of Leninist regimes.” In China, however, neither the transition from utopianism to development nor the stages of transformation, consolidation, and inclusion/adaptation proceeded in a linear fashion. Both approaches hold useful insights and should be seen as complementary.

⁶ W. Richard Scott, *Organizations: Rational, Natural and Open Systems*, 4th ed. (Englewood Cliffs, NJ: Prentice-Hall, 1998).

The CCP's emphasis on economic development in its policy agenda has inevitably created contradictions between the norms that are needed to manage the marketplace and the norms that are necessary to sustain a Leninist system. Where the Leninist system emphasizes hierarchy, the market requires horizontal ties and reciprocal networks; where the Leninist system entails a closed decision-making system and strict secrecy about even elemental forms of information, the market requires openness and the free flow of information; where the hallmark of a Leninist system is party dominance over the state and society through its network of party cells, the market requires minimal state involvement, especially the use of political criteria for economic decisions; where the Leninist system makes the distribution of most goods and services dependent on political decisions, the market entails the exchange of goods and services on the basis of equal value; above all, where most Leninist parties claim to promote the interests of the working class over those of the capitalists, the market operates primarily for the benefit of capitalists. When we recall that this party formerly waged violent class warfare against China's industrial and commercial classes, we can understand why the decision to admit entrepreneurs into the party is so momentous, and why it was hotly contested within the party for so long.

Even in party recruitment policies, there has been a debate on whether the emphasis should be on the "production standard" (i.e., promoting greater economic growth, either through hard work or especially entrepreneurship) or the "party standard" (loyalty to the party and adherence to its official ideology). Party journals often juxtapose these two standards to show their contradictory nature. Whether they can be reconciled is beside the point: critics claim that the production standard is displacing the party standard as the top criterion of party membership; adherents claim it should be given even greater priority. Although the party is pursuing policies of inclusion, not all in the party agree that inclusion should include allowing capitalists into a communist party or abandoning all the party's ideological traditions.

THE POLITICAL CONSEQUENCES OF ECONOMIC REFORM

It has become a truism that continued economic reform in China, and privatization in particular, will lead to political change. Policy makers as well as many scholars expect that formation of a private sector will lead, directly or indirectly through the emergence of a civil society, to political change and ultimately democratization. The rapidly growing numbers of private entrepreneurs, the formation of business associations, and the cooperative relationships between entrepreneurs and local officials are seen as initial indicators of a transition from China's still nominally communist political system. This expectation,

often stated by politicians and those in the policy community, is based on a simplified version of modernization theory. For instance, it was the rationale given by Presidents Bush and Clinton for annually renewing China's most favored nation status (later renamed normal trade relations) and for admitting China into the World Trade Organization: Increased trade will promote economic development, leading to the formation of a civil society that will push for political change. The result will be a democratic China that will promote peace and stability in the Asia-Pacific region, thus benefiting American security interests.⁷

This perspective is shared by many scholars. The influential works of Lipset, Almond and Verba, Dahl, Inglehart, and others showed the close correlation between economic development and democracy.⁸ Although the specific cause and effect relationships are often disputed, economic development is clearly correlated with industrialization, urbanization, higher rates of literacy, improved communications, value changes, and the creation of a middle class. These attributes of modernization in turn promote democratization. In her study of democracy in East Asia, Samantha Ravich offers an even more multifaceted depiction of the link between economic and political change. She argues that marketization gives rise to prosperity, experience with competition and choice, reduced levels of corruption, and the dispersal of power away from the state as private citizens gain economic autonomy and private firms gain better bargaining power against the government. "A private sphere that exists, separate and distinct from a public domain, erodes the ability of the government to exert coercive power over the populace."⁹

The connection between economic development and democracy has led some scholars to offer unusually precise predictions about the advent of democratization in China. Henry Rowen, an economist at Stanford University, predicted

⁷ This benign scenario is not held by all. A vocal minority in the United States argues forcefully that China's economic development is also leading to its military modernization and a security strategy that poses a challenge to American interests in Asia and elsewhere in the world. This is the perspective of the "blue team," a loosely organized group of Congressional staff, think tank scholars, and journalists. See Richard Bernstein and Ross H. Munro, *The Coming Conflict with China* (New York: Knopf, 1997).

⁸ Seymour Martin Lipset, "Some Social Requisites of Democracy: Economic Development and Political Legitimacy," *American Political Science Review*, vol. 53, no. 1 (March 1959), pp. 69–105; Gabriel Almond and Sidney Verba, *Civic Culture: Political Attitudes and Democracy in Five Nations* (Princeton: Princeton University Press, 1963); Robert A. Dahl, *Polyarchy: Participation and Opposition* (New Haven: Yale University Press, 1971); Ronald Inglehart, *Modernization and Post-Modernization: Cultural, Economic, and Political Change in 43 Societies* (Princeton: Princeton University Press, 1997).

⁹ Samantha F. Ravich, *Marketization and Democracy: East Asian Experiences* (Cambridge: Cambridge University Press, 2000), p. 19.

that China will be democratic by 2015, based solely on economic projections.¹⁰ Shaohua Hu is even more optimistic, anticipating China will be democratic by 2011 because the obstacles to democracy, including socialist values and limited economic development, are breaking down.¹¹ These types of arguments, based on a linear and deterministic approach to political development, ignores the weak link between economic development and democracy. Adam Przeworski and Fernando Limongi tested some of the main elements of modernization theory using time series data from a wide range of countries and found that there was no simple correspondence between economic change and the timing of democratization.¹² Moreover, despite the obvious trend of economic growth in China, other trends suggest that liberalization will not be as immediate or as smooth as some scholars and policy makers suggest. Among the factors that may prevent liberalization in China are unclear property rights, the state's ambivalence over privatization, local protectionism, labor unrest, and the common backgrounds and shared interests of the emerging middle classes and state officials.¹³ Despite the many critiques of modernization theory, the simple and intuitive logic linking economic and political change is too seductive for many scholars and policy analysts to ignore.

Economic development and modernization may facilitate democratization, but not directly and not always immediately. Democratization is not a natural result of economic growth, it is a political process fraught with conflict, negotiations, and occasionally setbacks. Scholars looking at democratic transitions tend to focus not just on economic and social preconditions but more importantly on the actors who influence the process. One corollary of the modernization argument is that privatization in the economy creates a new class of entrepreneurs who can be agents of change. This is particularly pertinent in China. According

¹⁰ Henry S. Rowen, "The Short March: China's Road to Democracy," *The National Interest*, no. 45 (Fall 1996), pp. 61–70.

¹¹ Shaohua Hu, *Explaining Chinese Democratization* (Westport, CT: Praeger, 2000).

¹² Adam Przeworski and Fernando Limongi, "Modernization: Theories and Facts," *World Politics*, vol. 49, no. 2 (January 1997), pp. 155–183. See also Ross E. Burkhardt and Michael A. Lewis-Beck, "Comparative Democracy: The Economic Development Thesis," *American Political Science Review*, vol. 88, no. 4 (December 1994), pp. 903–910, who conclude that economic development leads to democratization, but also that democracy does not lead to economic development.

¹³ David Zweig, "Undemocratic Capitalism: China and the Limits of Economism," *The National Interest*, no. 56 (Summer 1999), pp. 63–72; David S.G. Goodman, "The New Middle Class," in Merle Goldman and Roderick MacFarquhar, eds., *The Paradox of China's Post-Mao Reforms* (Cambridge: Harvard University Press, 1999), and Goodman, "The Interdependence of State and Society: The Political Sociology of Local Leadership," in Chien-min Chao and Bruce J. Dickson, eds., *Remaking the Chinese State: Strategies, Society, and Security* (London and New York: Routledge, 2001).

to Kristen Parris, as more and more private entrepreneurs are recruited into the CCP, they are likely to be a “force for change within the party rank and file.”¹⁴ Others see private entrepreneurs as the leading edge of an emerging civil society that will eventually transform China’s political system. These are exactly the fears of leftists in the party, who use a similar logic to argue that capitalists should be kept out of the party, rather than co-opted into it. This emphasis on the political role of entrepreneurs, apart from the economic development process, is based on the important part entrepreneurs have historically played in shaping and changing their political systems. Barrington Moore’s oft-cited phrase “no bourgeoisie, no democracy” succinctly states one of their important roles in a nation’s political transformation. Samuel Huntington found that one of the main threats to an authoritarian regime is the “diversification of the elite resulting from the rise of new groups controlling autonomous sources of economic power, that is, from the development of an independently wealthy business and industrial middle class.”¹⁵

However, the contribution of entrepreneurs to the transition from authoritarianism is complex and ambiguous. Entrepreneurs may prop up an authoritarian regime because they benefit materially or because they are worried that political change will harm their property interests. Their political activism is often limited to economic issues that directly affect their immediate interests and does not include broader political issues. The literature on business associations in developing countries also emphasizes collective action efforts on economic and commercial matters, while paying less attention to strictly political matters.¹⁶ But once they perceive that the regime is under challenge by broader elements of civil society, especially if this opposition is triggered by an economic downturn, businesspeople may turn from regime supporters (or at least political neutrality) to more overt opposition.¹⁷ In countries as diverse as South Korea, the Philippines, Brazil, Peru, Ecuador, and Spain, democratization was facilitated when businesspeople and the broader middle classes shifted their support from

¹⁴ Kristen Parris, “Local Initiative and National Reform: The Wenzhou Model of Development,” *China Quarterly*, no. 134 (June 1993), p. 261.

¹⁵ Samuel P. Huntington, *Political Order in Changing Societies* (New Haven: Yale University Press, 1970), p. 20.

¹⁶ See for example Leroy Jones and Il Sakong, *Government, Business, and Entrepreneurship in Economic Development* (Cambridge: Harvard University Press, 1980) and Sylvia Maxwell and Ben Ross Schneider, eds., *Business and the State in Developing Countries* (Ithaca: Cornell University Press, 1997).

¹⁷ Guillermo O’Donnell and Philippe C. Schmitter, *Transitions from Authoritarian Rule: Tentative Conclusions about Uncertain Democracies* (Baltimore: Johns Hopkins University Press, 1986); Yanqi Tong, “State, Society, and Political Change in China and Hungary,” *Comparative Politics*, vol. 26, no. 3 (April 1994), pp. 333–353.

the government to the opposition.¹⁸ It is this possibility, that China's red capitalists will one day be supporters of democratization and not simply regime supporters, that gives hope to those who advocate political change and nightmares to those who fear the demise of the CCP.

In sharp contrast to those who see economic development leading directly or indirectly to democratization, others foresee a coming collapse into chaos. This prediction is supported by regular reports of rural protests, labor unrest, environmental degradation, and rampant corruption. The central state's authority has been steadily eroded by the decentralization of authority and the privatization of the economy. According to this perspective, the ultimate, albeit unintended, consequence of the post-Mao economic reforms will be the hollowing out of the state, with its collapse at some unspecified date in the not too distant future. As opposed to expectations that economic development is laying the foundation for an imminent and smooth transition to democracy, this perspective sees an extended period of decay and disunity, leading perhaps even to the breakup of China into separate countries.¹⁹

A less dramatic version of what may be called the "disintegration thesis" emphasizes how the transition to a market economy erodes what Andrew Walder calls the "institutional pillars" of a communist system: the Leninist style of party organization and central planning over the economy.²⁰ As a consequence of these two factors, the party was able to monitor the activities of managers, workers, farmers, and all others in society, rewarding proper conduct with career advances and access to essential goods and services and punishing improper

¹⁸ Samuel Huntington, *The Third Wave: Democratization in the Late Twentieth Century* (Norman: University of Oklahoma Press, 1991), pp. 67–68.

¹⁹ Gordon G. Chang, *The Coming Collapse of China* (New York: Random House, 2001). For a more succinct enunciation of this perspective, see Jack A. Goldstone, "The Coming Chinese Collapse," and the rejoinder by Yasheng Huang, "Why China Will Not Collapse," *Foreign Policy*, no. 99 (Summer 1995), pp. 35–52 and 54–68, respectively. This viewpoint runs counter to the "blue team" perspective that economic development is leading to a strong, unified, and aggressive China. When looking at China from the inside, that viewpoint is harder to see. For a discussion of alternative scenarios of China's future and their implications for U.S. policy, see Kenneth Lieberthal, "U.S. Policy Toward China," *Brookings Policy Review*, no. 72 (March 2001).

²⁰ Andrew G. Walder, "The Decline of Communist Power: Elements of a Theory of Institutional Change," *Theory and Society*, vol. 23, no. 2 (April 1994), pp. 297–323; see also Walder's "The Quiet Revolution from Within: Economic Reform as a Source of Political Decline," in Walder, ed., *The Waning of the Communist State: Economic Origins of Political Decline in China and Hungary* (Berkeley: University of California Press, 1995). Other studies also assert the erosion of the party's power, for instance Hsi-sheng Ch'i, *Politics of Disillusionment: The Chinese Communist Party under Deng Xiaoping, 1978–1989* (Armonk, NY: M. E. Sharpe, 1991) and Murray Scot Tanner, "The Erosion of Central Party Control over Lawmaking," *China Quarterly*, no. 138 (June 1994), pp. 381–403.

behavior by withholding these same things. The emergence of markets in the post-Mao era eroded the “organized dependence” created by central planning and party dominance in the Maoist era. Markets provide the ways and means for workers and farmers to obtain the necessary goods and services (e.g., food, clothing, housing), limiting the party’s ability to shape their behavior with positive and negative sanctions. In addition, the expansion of the private sector weakened the monitoring capacity of the CCP, because most private firms do not have party organizations, the nominal (but not fully effective) ban on recruiting entrepreneurs has limited the party’s direct link with that group, and the relationship between local officials and entrepreneurs is more symbiotic than dependent. If the capacity to monitor and sanction economic and social behavior are key elements of a Leninist system, then as that capacity declines, so too does the stability of the system. As Huntington noted, the strength of any authoritarian regime depends in large part on the strength of its party. As the party weakens, the stability of the regime it governs also comes into question.²¹

The change in the party’s work from class struggle to economic development also contributed to a reorientation of inner party norms. The emphasis on maximizing economic growth can and often does conflict with other central directives. As Walder showed, the introduction of markets made local officials less dependent on their superiors. The non-state owned sectors of the economy created new sources of revenue and investment funds. Ill-defined property rights also allowed local officials to use “public” property for personal use, for instance by opening so-called collective enterprises that were in fact wholly owned by state owned enterprises (SOEs), or by entering into joint ventures. The transition to a market economy also created new sources of personal income. In addition to blatant corruption, local officials earn income by being partners or board members of local enterprises, by opening their own enterprises, by extorting taxes and fees from farmers and firms, or requiring matchmaker fees to facilitate joint ventures and trade. The emphasis on achieving faster rates of growth as a criterion for promotion also makes these officials pay more attention to local needs and less to strict compliance with non-economic orders from above. As will be shown throughout this book, local officials were willing to co-opt successful entrepreneurs into the party even when it violated central party policy to do so. Forging links with local economic elites had “horizontal” advantages even if they did not conform to “vertical” guidelines. Under these circumstances, local officials have less incentive to be loyal agents of higher

²¹ Huntington, “Social and Institutional Dynamics,” p. 9.

levels of the state.²² This reduced ability to sanction the behavior of local officials also reduced the political cohesion of the Leninist system in China.

To some extent, these different scenarios are potentially compatible. The disintegration of the CCP need not mean the disintegration of the country. The institutional pillars of China's communist system may be undermined, but if they are replaced by alternative institutional arrangements, then the CCP may disintegrate, but the country may remain intact. In other words, the "disintegration thesis" refers to the implications for the CCP and the communist political system in China; the predictions for either democratization or decay and disunity focus more on the economy and society and less on the communist system itself. Obviously, economic, social, and political trends are closely related, but they are not so tightly bundled as to be synonymous. Economic and social development may spell danger for the CCP, but need not spell disaster for the country at large. That is the expectation, and indeed the hope, of many observers, both inside and outside China.

DYNAMICS OF CIVIL SOCIETY

As noted in the previous section, the prospects for political change in China are generally predicated on the role of civil society. The existence of civil society in China has fostered heated debates among scholars. Historians have argued over whether the economic and social changes of the late Qing and Republican periods led to the emergence of a civil society, at least in some of the main cities of the time.²³ During the late Qing, associations of various kinds formed, including guilds for merchants and tradesmen and organizations for immigrants and sojourners from the same place of origin (*tongxianghui*). By the Republican period, guilds for bankers, lawyers, and other professions were also common. Initially, guilds concentrated on commercial regulations and worship activities.

²² For other examples of how economic reform weakened the center's control over local governments, see Jia Hao and Lin Zhimin, eds., *Changing Central-Local Relations in China* (Boulder: Westview, 1994), and Wang Shaoguang, "The Rise of the Regions: Fiscal Reform and the Decline of Central State Capacity in China," in Walder, ed., *Waning of the Communist State*. Others argue that the power of the center grew as a consequence of reform policies: see Dali Yang, "Reform and Restructuring of Central-Local Relations," in David S. G. Goodman and Gerald Segal, eds., *China Deconstructs: Politics, Trade, and Regionalism* (London: Routledge, 1994) and Yasheng Huang *Inflation and Investment Controls in China: The Political Economy of Central-Local Relations during the Reform Era* (New York: Cambridge University Press, 1996).

²³ William T. Rowe, *Hankow: Commerce and Society in a Chinese City, 1796–1889* (Stanford: Stanford University Press, 1984); Mary Backus Rankin, *Elite Activism and Political Transformation in China: Zhejiang Province, 1865–1911* (Stanford: Stanford University Press, 1986); David Strand, *Rickshaw Beijing: City People and Politics in the 1920s* (Berkeley: University of California Press, 1989).