

# Integrating Wealth and Power in China: The Communist Party's Embrace of the Private Sector

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**ABSTRACT** Is privatization in China leading to political change? This article presents original survey data from 1999 and 2005 to evaluate the Communist Party's strategy towards the private sector. The CCP is increasingly integrating itself with the private sector, both by co-opting entrepreneurs into the Party and encouraging current Party members to go into business. It has opened the political system to private entrepreneurs, but still screens which ones are allowed to play political roles. Because of their close personal and professional ties, and because of their shared interests in promoting economic growth, China's capitalists and communist officials share similar viewpoints on a range of political, economic and social issues. Rather than promote democratic governance, China's capitalists have a stake in preserving the political system that has allowed them to prosper, and they are among the Party's most important bases of support.

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Support of the private sector has been an increasingly prominent part of the Chinese Communist Party's (CCP) economic reform strategy. Similarly, its embrace of the private sector has been a key part of its political strategy of adapting to China's changing economic and social environment. The CCP banned the recruitment of entrepreneurs into the Party in 1989, but during the 1990s, many local Party officials quietly co-opted entrepreneurs in violation of the ban. In 2002, the CCP revised its constitution to legitimize this informal practice. Both the informal co-optation and the formal endorsement of recruiting entrepreneurs were designed with two goals in mind: first, to seek co-operation between the state and private enterprises, which are responsible for most new growth and job creation, central elements of the CCP's claim to legitimacy; and second, to prevent entrepreneurs becoming an organized opposition. As such, the practice of co-opting entrepreneurs has been an

\* Research for this article was made possible with the generous support of the Smith Richardson Foundation and the United States Institute of Peace, and the ongoing co-operation of the Research Center for Contemporary China at Peking University. For their helpful suggestions, I would like to thank Kent Jennings, Pierre Landry, Melanie Manion, Margaret Pearson, Minxin Pei, Shen Mingming, Kellee Tsai and Yang Ming. In addition, I want to thank Jeffrey Becker, Enze Han, Alison Peet and Logan Wright for their research assistance.

essential part of the CCP's strategy for survival. At the same time, the alliance between political and economic elites, symbolized by the growing number of "red capitalists" – entrepreneurs who are also CCP members – is bringing new interests and new people into the political arena. What impact is this integration of wealth and power having on China's still nominally communist system?

This article evaluates the results of the CCP's approach to the private sector, both the incorporation of large numbers of private entrepreneurs into the CCP and the institutional links between business and the state. Whereas previous studies concentrated on a single locale, sector or point in time, this study uses data from two original surveys conducted in eight counties and county-level cities and completed in 1999 and 2005 (see Appendix).<sup>1</sup> These surveys allow me to account for both regional variation and changes over time. The data indicate that the CCP's co-optation strategy has largely been successful. Because of their close personal and professional ties, and because of their shared interests in promoting economic growth, China's capitalists and communist officials share similar viewpoints on a range of political, economic and social issues. In short, rather than promote democratic governance, China's capitalists have a stake in preserving the political system that has allowed them to prosper. They do not pose an immediate threat to the CCP; indeed, they are among the Party's most important bases of support.

### **The Role of Entrepreneurs in Political Change**

It has become a truism that continued economic reform in China, and privatization in particular, will facilitate political change. China's economic reforms are creating the independent sources of wealth, power and influence that scholars have shown are key factors in a country's democratization.<sup>2</sup> Democracy is not an automatic response to economic and social change, however; it is a political process driven by actors inside and outside the regime. The CCP has not been a passive actor in this process, but instead has taken steps to prevent organized demands for political change emanating from outside the Party. In so doing, China has become a prime example of how authoritarian governments can employ strategic action to survive indefinitely despite rapid economic and social development.<sup>3</sup> It has selectively accommodated some interests while suppressing others. In particular, it has limited the types of organizations that

1 The findings of the 1999 survey were published in my *Red Capitalists in China: The Party, Private Entrepreneurs, and the Prospects for Political Change* (New York: Cambridge University Press, 2003).

2 Seymour Martin Lipset, "Some social requisites of democracy: economic development and political legitimacy," *American Political Science Review*, Vol. 53, No. 1 (1959), pp. 69–105; Samuel P. Huntington, *The Third Wave: Democratization in the Late Twentieth Century* (Norman, OK: Oklahoma University Press, 1991); Larry Diamond, *Developing Democracy: Toward Consolidation* (Baltimore: Johns Hopkins University, 1999).

3 Bruce Bueno de Mesquita and George W. Downs, "Development and democracy," *Foreign Affairs*, Vol. 84, No. 5 (2005), pp. 77–86.

can exist, allowing the ones it feels can be beneficial to its policy agenda and suppressing those it deems a potential threat to its political power. It screens which individuals are elected or selected for political posts, thereby deciding who can be active in the political system. It carefully monitors the flow of information via the media and the internet, and while dissenting views occasionally appear, they are normally quickly removed. It has promoted the flow of information and allowed the types of organizations that are conducive to economic development while simultaneously preventing the same tools from being used for political purposes. These efforts have raised the costs of collective action and lowered the prospects for immediate political change.

The increased economic and political prominence of private entrepreneurs has received special attention from scholars and also Western media. Some note the potential for China's new economic elites to serve as agents of change, either by subtly influencing the CCP from within or engaging in organized collective action against the state on economic and political issues. Others see private entrepreneurs as the leading edge of an emerging civil society that will eventually transform China's political system.<sup>4</sup>

The attention paid to private entrepreneurs as potential agents of political change in China is a result of renewed interest in modernization theory that accompanied the "third wave" of democratization and the recognition of the link between markets and democracy. In addition, comparative research has shown the important role that entrepreneurs have played in political development. Not only does Barrington Moore's pithy "no bourgeois, no democracy" continue to influence thinking on the issue, but recent studies have also noted the complex and ambiguous contribution of entrepreneurs to the transition from authoritarianism. Entrepreneurs may prop up an authoritarian regime because they benefit materially or because they are worried that political change will harm their economic interests.<sup>5</sup> 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 overt opposition. Although they rarely initiate the push for democracy, they have been necessary allies to democratic movements initiated by the working classes. In countries as diverse as South Korea, the Philippines, Brazil, Peru, Ecuador and Spain, democratization

4 Kristen Parris, "Local initiative and national reform: the Wenzhou model of development," *The China Quarterly*, No. 134 (1993), pp. 242–63; Gordon White, "Democratization and economic reform in China," *Australian Journal of Chinese Affairs*, No. 31 (1994), pp. 73–92; Gordon White, Jude Howell and Shang Xiaoyuan, *In Search of Civil Society: Market Reform and Social Change in Contemporary China* (Oxford: Oxford University Press, 1996); Baogang He, *The Democratic Implications of Civil Society in China* (New York: St Martin's Press, 1997); Xiaoqin Guo, *State and Society in China's Democratic Transition: Confucianism, Leninism, and Economic Development* (New York: London, 2003); Yongnian Zheng, *Will China Become Democratic? Elite, Class, and Regime Transition* (Singapore: Eastern Universities Press, 2004).

5 Eva Bellin, "Contingent democrats: industrialists, labor, and democratization in late-developing countries," *World Politics*, Vol. 52, No. 2 (2000), pp. 175–205.

was facilitated when businesspeople and the broader middle classes shifted their support from the government to the opposition.<sup>6</sup> These comparative examples have created expectations that China's capitalists may also be agents of political change.

In contrast, most empirical studies have shown that China's entrepreneurs are not strong supporters of democracy and democratization. Margaret Pearson found that entrepreneurs were not likely to initiate demands for democratization, but might "lend support if others take the lead in pressuring for economic and political change."<sup>7</sup> According to Kellee Tsai, "only a fraction of the current generation of private entrepreneurs has both the ability and desire to confront the state in defense of their interests, and many of them have already found non-democratic means for promoting their interests."<sup>8</sup> Similarly, An Chen concluded that China's bourgeoisie "have a taken-for-granted personal stake in preventing regime change," largely because of their corrupt and familial ties with the state.<sup>9</sup> In short, the beneficiaries of China's partially reformed authoritarian system have an incentive to preserve the status quo rather than promote political change. This is a twist on the pattern of other post-communist countries undergoing economic and political reform. In these countries, the initial winners of economic reform used the political process to block further privatization in order to keep the benefits for themselves.<sup>10</sup> In China's transition economy, the winners in economic reform have supported further reform in that realm, but they have not supported political change. While individual entrepreneurs may be outspoken supporters of political reform, China's private entrepreneurs, like capitalists in other countries, have been generally ambivalent about the need for and benefits of democratization, preferring the authoritarian regime in which they have thrived to the uncertainty inherent in a new and untried political system.<sup>11</sup>

6 Guillermo O'Donnell and Philippe C. Schmitter, *Transitions from Authoritarian Rule: Tentative Conclusions about Uncertain Democracies* (Baltimore: Johns Hopkins University Press, 1986); Dietrich Rueschemeyer, Evelyn Huber Stephens and John D. Stephens, *Capitalist Development and Democracy* (Chicago: University of Chicago Press, 1991); Huntington, *The Third Wave*, pp. 67–68.

7 Margaret Pearson, "The Janus face of business associations in China: socialist corporatism in foreign enterprises," *Australian Journal of Chinese Affairs*, No. 31 (1994), pp. 25–46. See also Pearson, "China's emerging business class: democracy's harbinger?" *Current History*, Vol. 97, No. 620 (1998), pp. 268–72.

8 Kellee Tsai, "Capitalists without a class: political diversity among private entrepreneurs in China," *Comparative Political Studies*, Vol. 38, No. 9 (2005), p. 1145.

9 An Chen, "Capitalist development, entrepreneurial class, and democratization in China," *Political Science Quarterly*, Vol. 117, No. 3 (2002), p. 412.

10 Joel S. Hellman, "Winners take all: the politics of partial reform in postcommunist transitions," *World Politics*, Vol. 50, No. 2 (1998), pp. 203–34; see also Minxin Pei, *China's Trapped Transition: The Limits of Developmental Autocracy* (Cambridge, MA: Harvard University Press, 2006).

11 Similar findings can be found in David Zweig, "Undemocratic capitalism: China and the limits of economism," *The National Interest*, No. 56 (1999), pp. 63–72, and Zhaohui Hong, "Mapping the evolution and transformation of the new private entrepreneurs in China," *Journal of Chinese Political Science*, Vol. 9, No. 1 (2004), pp. 23–42. A rare alternative perspective is offered in Lu Chunlong, "Democratic values among Chinese people: analysis of a public opinion survey," *China Perspectives*, No. 55 (2004), pp. 40–48.

## The Political Context

When the CCP came to power in 1949, it initially promised a united front strategy of co-operating with a wide range of non-communist groups. Private entrepreneurs were designated the “national bourgeoisie” to distinguish them from the “bureaucratic capitalists” who had links to the old Nationalist government and whose property was confiscated by the new regime. In the early years of the PRC, the national bourgeoisie were treated with respect and given positions in the coalition government. But this policy of collaboration was short-lived. In 1952, the CCP launched the Five Antis campaign against alleged economic crimes and tax evasion by large-scale entrepreneurs. In 1953, the government announced a new “general line for the transition to socialism” that called for the eventual socialization of industry and commerce. By 1956, the private sector was eliminated and all significant industrial and commercial assets were taken over by the state, with some compensation given to their former owners. Small-scale private trade in rural areas was also abolished during the mid-1950s. For the remainder of the Maoist era (1949–76), the state controlled all significant aspects of industry and commerce in China.<sup>12</sup> Even though private enterprises were eliminated, their former owners and their families were subject to repeated and often harsh persecution during subsequent political campaigns launched by Mao.

As the post-Mao reform era unfolded, the private sector began to re-emerge, initially comprising street vendors and very small-scale firms, and later expanding to include much larger industrial and commercial enterprises. For most of the 1980s, the private sector was limited to individually owned enterprises (*getihu* 个体户). To avoid the appearance of ideologically proscribed “exploitation,” these enterprises could only hire fewer than eight workers, although in practice many exceeded this limit.<sup>13</sup> Because of their quasi-legal status, many *getihu* had problematic backgrounds. Some of the people running them were actual criminals while others were the victims of past political campaigns. While some opened their own businesses because of their entrepreneurship, others did so out of sheer desperation when they were unable to find other jobs. Because of their complicated backgrounds and reputations, the *getihu* had relatively low political and social status. By extension, the private sector that they were part of was also viewed with suspicion by other members of society as well as the state.<sup>14</sup> In 1988, China’s National People’s Congress added a new paragraph to Article 11 of the state Constitution to give legal status to privately owned firms that employed eight or more workers. The State Council

12 Dorothy Solinger, *Chinese Business under Socialism: The Politics of Domestic Commerce in Contemporary China* (Berkeley: University of California Press, 1984).

13 The limit of eight workers was based on Karl Marx’s statement in *Capital* that employing more than that number resulted in exploitation; see Wu Jinglian, *Understanding and Interpreting Chinese Economic Reform* (Singapore: Thomson/South-Western, 2005), pp. 65 n. 44 and 182.

14 Thomas Gold, “Urban private business and China’s reforms,” in Richard Baum (ed.), *Reform and Reaction in Post-Mao China: The Road to Tiananmen* (New York: Routledge, 1991), pp. 84–103; and Susan Young, *Private Business and Economic Reform in China* (Armonk, NY: M.E. Sharpe, 1995).

subsequently issued regulations to put this into effect. However, many cadres continued to believe that private ownership in particular and capitalism in general was inconsistent with China's still socialist economy. Opponents of reform blamed the economic crisis of 1988 and the political protests of 1989 on the reform strategy.

Following the tragic end of popular demonstrations in Tiananmen Square and elsewhere in China, capitalists were criticized for their alleged role in supporting the students and the CCP banned recruitment of entrepreneurs into the Party. Although some entrepreneurs did provide financial and material support for the demonstrators, most were at best ambivalent about the popular demonstrations, and many were opposed to them.<sup>15</sup> The ban on recruiting private entrepreneurs into the Party – and the circumvention of it by some local Party leaders – was a prominent source of inner-Party debate throughout the 1990s.<sup>16</sup>

During these years, entrepreneurs were subject to harassment and even imprisonment for violating ill-defined laws and regulations concerning their business activities, their private property rights were not protected by law, and their factories and land could be confiscated without compensation. To protect themselves, many private enterprises became “red hat collectives”: they were for all intents and purposes privately owned and operated, but were formally registered as collective enterprises, which are essentially state-owned enterprises under the control of local governments.<sup>17</sup> This gave some degree of protection to private firms, but the precarious nature of their political and legal status stifled business activity.

The rapid expansion of the private sector began in 1992, following Deng Xiaoping's much heralded “southern tour.” Frustrated by the slow pace of economic reform in the post-Tiananmen climate, Deng embarked on a tour of special economic zones and other prosperous cities in south China and lauded their dynamism and willingness to initiate reform-oriented policies despite the conservative atmosphere in Beijing. Once the national media began to report Deng's comments, enthusiasm for economic reform, and for the opening of private firms in particular, exploded (see Table 1). In the years after 1992, the number of private enterprises grew by 35 per cent per year.

Together with the growth of the private sector came greater political and legal protection. At the 15th Party Congress in 1997, the CCP declared that although public ownership remained the mainstay of the economy, the non-public sectors were “important components of a socialist market economy.” The new wording raised the status of the individual and private sectors from supplemental to the public sector to important in their own right. At the Fifth Plenum of the 15th Central Committee in October 2000, the CCP went even further, announcing

15 David Wank, “Private business, bureaucracy, and political alliance in a Chinese city,” *Australian Journal of Chinese Affairs*, No. 33 (1995), pp. 63–65.

16 Dickson, *Red Capitalists in China*, pp. 98–107.

17 Kristen Parris, “The rise of private business interests,” in Merle Goldman and Roderick MacFarquhar (eds.), *The Paradox of China's Post-Mao Reforms* (Cambridge, MA: Harvard University Press, 1999).

Table 1: Growth in China's Private Sector, 1989–2003

	1989	1994	1999	2004
Number of private enterprises (millions)	.091	.432	1.509	3.651
Number of workers and staff (millions)	1.430	5.695	16.992	40.686
Average registered capital (million RMB)	.093	.335	.681	1.313
Average output value (thousand RMB)	107	264	509	631

Source:

For 1989–99: Zhang Houyi, “Kuaisu chengzhang de Zhongguo siying qiyezhu jiecheng” (“The rapid growth of China’s private entrepreneurs”), in *2005 Nian: Zhongguo shehui xingshi fenxi yu yuce* (*Blue Book of China’s Society 2005: Analysis and Forecast of China’s Social Development*) (Beijing: Shehui kexue wenxian chubanshe, 2005), p. 329; for 2004: Zhang Houyi, “Siying qiyezhu jiecheng chengchang de xin jieduan,” in *2006 Nian: Zhongguo shehui xingshi fenxi yu yuce* (*Blue Book of China’s Society 2006: Analysis and Forecast of China’s Social Development*) (Beijing: Shehui kexue wenxian chubanshe, 2006), p. 345 (averages calculated from numbers in sources).

that “the healthy development of the self-employed and privately owned businesses ... [will be] supported, encouraged and guided.”<sup>18</sup> This new terminology gave the private sector the same status as the public sector.

On 1 July 2001, the 80th anniversary of the founding of the CCP, Jiang recommended that private entrepreneurs be allowed to join the CCP, ending a ban that he himself had announced in August 1989. Jiang claimed that entrepreneurs were a new social stratum making significant contributions to the country’s development and modernization, and therefore deserved a place in the ruling party. To further symbolize the CCP’s support of the private sector, the 16th Party Congress in 2002 revised the Party’s Constitution to include the “Three Represents” slogan promoted by Jiang Zemin. The CCP now claimed to represent not only its traditional supporters, the workers and farmers, but also the interests of the new “advanced productive forces” of urban economic and social elites, thereby justifying their inclusion in the Party. Although often ridiculed as empty rhetoric, the “Three Represents” changed the Party’s strategy of co-opting entrepreneurs from an informal practice to a formal goal. This was the culmination of Jiang’s elitist strategy of the 1990s, where the CCP pursued its goal of rapid economic growth by relying on coastal provinces and gave privileged access to the entrepreneurs who succeeded in getting rich first.<sup>19</sup>

18 This new policy was announced in the communiqué of Fifth Plenum of the 15th Central Committee of the CCP; see Xinhua, 11 October 2000.

19 For more details on the origins and development of the “Three Represents,” see my “Dilemmas of Party adaptation: the CCP’s strategies for survival,” in Peter Hays Gries and Stanley Rosen (eds.), *State and Society in 21st Century China: Crisis, Contention, and Legitimation* (New York and London: Routledge, 2004).

Under the new leadership of Hu Jintao and Wen Jiabao, the CCP became more cautious in trumpeting the benefits of privatization, but no less determined to continue the process. Hu and Wen have attempted to present a more populist image for the Party, emphasizing the interests of society at large, especially in the countryside, instead of Jiang's emphasis on urban economic elites.<sup>20</sup> Nevertheless, Hu and Wen have not abandoned the CCP's commitment to the private sector or its pursuit of rapid growth. In 2003 the Third Plenum of the 16th Central Committee followed up the earlier pledge to support, encourage and guide the development of the private sector by approving the equal treatment of public and non-public enterprises regarding investment, financing, taxation, land use and foreign trade, and committing the CCP to adopting "a modern system of property rights," to benefit both the public and private sectors.<sup>21</sup> In 2004, Article 11 of the Constitution was again revised to say that the state protects the rights, interests and legality of individual and private enterprises. But the momentum to legalize property rights slowed after Gong Xiantian, a law professor at Beijing University, published an article in 2005 criticizing the draft law as mimicking Western capitalism and ignoring the socialist nature of China's economy. With the ideological debate on the propriety of private property once again revived, final approval of the property rights legislation was delayed until 2007.

Hu and Wen also showed their support for the private sector in other ways. They included private entrepreneurs in their trips abroad. In 2003, five entrepreneurs from Wenzhou, the county in Zhejiang that was the model for private sector-led development, were part of Wen Jiabao's delegation to Ethiopia. Entrepreneurs were also part of Hu Jintao's delegation to the United States and Canada in 2005, and a total of 202 entrepreneurs went with Vice-Premier Wu Yi to the United States in 2006.<sup>22</sup> While Hu was president of the central Party school, it began offering special classes and programmes for private businessmen.<sup>23</sup> As of early 2006, more than 10,000 entrepreneurs from all over China had attended these classes, which typically focus on economics and business management, and are similar to short courses offered by business schools for owners and senior managers.<sup>24</sup> But the Party also brings groups of entrepreneurs to Party schools to influence their political thinking. Although the CCP is fully committed to the private sector, it wants to ensure that the private

20 Bruce J. Dickson, "Beijing's ambivalent reformers," *Current History*, Vol. 103, No. 674 (2004), pp. 249–55; Cheng Li, "The new bipartisanship within the Chinese Communist Party," *Orbis*, Vol. 49, No. 3 (2005), pp. 387–400.

21 Xinhua, 14 October 2003.

22 Li Jingrong, "Engaging entrepreneurs in state-level visits," China.org.cn, 18 April 2006 (<http://www.china.org.cn/english/2006/Apr/165971.htm>).

23 Xinhua, 1 July 2000, in WNC, 3 July 2000; "Shanghai entrepreneurs sent to Central Party School for political training," *Ming pao* (Hong Kong), 29 November 2002, in World News Connection (WNC), 29 November 2002; "Shanghai private entrepreneurs participate in study program at Central Party School in Beijing," *Wen wei po* (Hong Kong), 10 January 2003, in WNC, 17 January 2003; Xinhua, 26 December 2005, in WNC, 26 December 2005.

24 *South China Morning Post*, 26 April 2006.



sector remains committed to the Party, and short courses at Party schools are seen as one means of cultivating support.

The reform of rural township and village enterprises (TVEs) and state-owned enterprises (SOEs) also contributed to the growth of the private sector. Official restrictions on private ownership in the post-Mao era encouraged local governments to create collectively owned TVEs in the early reform period.<sup>25</sup> Collective ownership gave local officials additional resources to foster local development, enlarge their patronage and strengthen their influence; in addition, prohibitions on private ownership in the early 1980s left little choice but to develop rural industrial enterprises under collective ownership. Only in areas like Wenzhou, which was geographically isolated and not a beneficiary of central largesse, did private ownership lead economic development. TVEs were involved in labour-intensive industries, such as textiles and assembly work, where the barriers to entry – especially capital requirements – were low. Initially, TVEs were very profitable. As more and more firms entered the market, however, competition forced prices and profits to fall, leading to the closing, consolidation and eventually the privatization of TVEs. By 2004, over 90 per cent of TVEs were registered as privately owned.<sup>26</sup> In many cases, privatization was more formal than real because many TVEs had been “red hat” collectives, but exactly how many fit this description is not known.

The reform of SOEs was the third contributor to private sector growth in China. The main trigger for SOE reform was the chronic unprofitability of this sector. SOEs were often grossly inefficient, wasting energy and other inputs, employing far more employees than necessary, and producing goods for which there were no markets. In addition, they were responsible for the housing, medical and educational expenses for workers and their families. As market competition increased, SOEs were unable to compete against private and collective enterprises that operated more efficiently and did not provide the full range of benefits that SOE workers enjoyed. Throughout the early reform era of the 1980s, SOE reform did not include or even envisage privatization. Instead, early reforms were designed to give firms more incentives to be profitable, but not to change their form of ownership. In the 1990s, however, SOE reform changed its focus from improving incentives and managerial autonomy to corporate restructuring.<sup>27</sup> At the 15th Party Congress in 1997, the CCP adopted a new policy towards SOEs known as “grasp the big, release the small” (*zhuada fangxiao* 抓大放小). Between 1996 and 2001, nearly 50,000 small and

25 Jean C. Oi, *Rural China Takes Off: Institutional Foundations of Economic Reform* (Stanford: Stanford University Press, 1999); Susan H. Whiting, *Power and Wealth in Rural China: The Political Economy of Institutional Change* (New York: Cambridge University Press, 2001).

26 Hongbin Li and Scott Rozelle, “Privatizing rural China: insider privatization, innovative contracts, and the performance of township enterprises,” *The China Quarterly*, No. 176 (2003), pp. 981–1005; Sun Laixiang, “Ownership reform in China’s township and village enterprises,” in Stephen Green and Guy S. Liu (eds.), *Exit the Dragon? Privatization and State Control in China* (London: Blackwell, 2005), pp. 90–110.

27 Stephen Green and Guy S. Liu, “China’s industrial reform strategy: retreat and retain,” in Green and Liu, *Exit the Dragon?* pp. 15–41.

medium-sized SOEs went through restructuring, including public offerings, joint ventures, employee buyouts, leasing and bankruptcy. According to a survey of industrial SOEs, 86 per cent had undergone some degree of reform by the end of 2001, and 70 per cent had been wholly or partially privatized.<sup>28</sup> Approximately 25 per cent of officially registered private enterprises were originally part of the state-owned sector.<sup>29</sup>

By 2004, China had over 3.6 million private enterprises and the individual and private economies became the source of nearly all economic growth and new jobs. The OECD's *Economic Survey of China, 2005* reported that the private sector produced "well over half of GDP and an overwhelming share of exports." It also estimated a "fivefold rise in the output of domestically-owned private companies" from 1998 to 2003, compared to a 70 per cent rise in the output of the state sector.<sup>30</sup> Between 2000 and 2005, the private sector created 57 million jobs, including 80 per cent of new jobs outside agriculture; during the same time, the labour force in the state-owned sector shrank by 15 million. Tax revenue provided by private firms grew 40 per cent per year between 2000 and 2005, whereas the state sector's contribution grew by only 7 per cent.<sup>31</sup>

The CCP's attitude towards the private sector changed from the restrictiveness of the 1980s to active promotion in the 1990s and beyond. Whereas private entrepreneurs were blamed for much of the turmoil of the 1989 demonstrations and accused of counter-revolutionary ambitions, by the mid-1990s they had become full-fledged partners in China's economic development. After the 16th Party Congress in 2002, the CCP promoted a more populist agenda while still striving to maintain rapid growth. Recognizing the sensitivity of the Party's embrace of the private sector, the CCP reportedly ordered state-run media to stop publicizing Hu Jintao's favourable comments about privatization during the period before the annual meeting of the National People's Congress in March 2007 and the 17th Party Congress in October 2007.<sup>32</sup>

## The Integration of Private Entrepreneurs into China's Political System

The Party has two motivations to co-opt entrepreneurs. First, it wants a more co-operative relationship with the group of people most responsible for promoting economic growth, a key legitimizing factor for continued CCP rule. This is particularly important for local officials, whose promotions depend on achieving high rates of growth. The second reason for integrating entrepreneurs

28 Shahid Yusuf, Kaoru Nabeshima and Dwight Perkins, *Under New Ownership: Privatizing China's State-Owned Enterprises* (Palo Alto, CA, and Washington, DC: Stanford University Press and The World Bank, 2006), p. 16.

29 This estimate comes from the 2002 survey of the private sector sponsored by the All China Federation of Industry and Commerce, the Chinese Academy of Social Sciences, and other groups. See [http://www.acfic.org.cn/acfic/12\\_xw/xxzk/708\\_8.htm](http://www.acfic.org.cn/acfic/12_xw/xxzk/708_8.htm), and Xinhua, 13 November 2003.

30 Organisation for Economic Co-operation and Development, *Policy Brief: Economic Survey of China, 2005*, pp. 1, 3.

31 "Private firms powering China economy," *China Daily* (online), 22 September 2006.

32 Edward Cody, "Broadcast media in China put on notice," *Washington Post* (27 February 2007).

into the political system is to pre-empt them from forming or joining an organized opposition to the CCP. Both these rationales have been consistently put forward by advocates of co-optation.<sup>33</sup> The first goal of co-operating to promote growth is examined in this section; the second goal of pre-empting opposition is the basis for the next section.

### *Membership in the CCP*

A growing number of entrepreneurs are red capitalists: in the late 1990s, approximately 20 per cent of entrepreneurs were Party members, and by 2004, that number had grown to almost 35 per cent. In comparison, less than 6 per cent of the total population belongs to the CCP. The much higher concentration of Party members among private entrepreneurs shows the growing integration of political and economic elites in China. In part, the growth of both the private sector and the number of red capitalists is due to the privatization of formerly state-owned enterprises. As these SOEs are converted into private enterprises, their former managers (most of whom were Party members) now become owners of private firms, instantly increasing the number of red capitalists.<sup>34</sup>

Jiang Zemin's speech on 1 July 2001 authorized the recruitment of entrepreneurs and other urban elites into the Party. Despite pilot programmes implemented by the Party's organization departments in a number of cities, little new recruitment occurred. According to a report by the central organization department, only 894 of 2.42 million new members in 2004 were entrepreneurs.<sup>35</sup> One reason for this apparent lack of new recruitment was that many local cadres did not support the new policy. They dragged their feet in carrying it out, found reasons to disqualify entrepreneurs from joining the Party, or accepted applications from entrepreneurs but failed to act on them. Another reason was that the entrepreneurs themselves seemed to have lost interest in joining the Party.<sup>36</sup> As the Party's commitment to the private sector grew and became more credible, the benefits of Party membership were less obvious.

Exactly half of the respondents in the 2005 survey were Party members, up from almost 40 per cent in the 1999 survey, but there was tremendous variation among the eight counties surveyed, ranging from 28 to 74 per cent. (In the 1999 survey, the range was similar: 22 to 78 per cent.) The percentage of entrepreneurs who were already Party members before they went into business (a group I refer

33 This is detailed in *Red Capitalists in China*, pp. 98–107; see also Jae Cheol Kim, "From the fringe to the center: the political emergence of private entrepreneurs in China," *Issues and Studies*, Vol. 41, No. 3 (2005), pp. 113–44.

34 Respondents in my two surveys were not asked if they previously worked for an SOE, so I cannot determine how many used to be SOE managers. According to a 2002 survey of the private sector sponsored by the All China Federation of Industry and Commerce, the Chinese Academy of Social Sciences, and other groups, 25.7% of private firms were former SOEs, and the heads of 50.7% of them were Party members. The report on this survey attributed most of the growth in red capitalists to the privatization of SOE's. See [http://www.acfic.org.cn/acfic/12\\_xw/xxzk/708\\_8.htm](http://www.acfic.org.cn/acfic/12_xw/xxzk/708_8.htm), and Xinhua, 13 November 2003.

35 Xinhuanet, 23 May 2005.

36 Henry Chu, "Chinese capitalists cool to Party invite," *Los Angeles Times*, 3 August 2002.

to as *xiahai* 下海 entrepreneurs) increased sharply from 25 to 34.2. The percentage of those who were co-opted into the Party after going into business also increased, but not as dramatically: from 13.1 to 15.7. Even so, this is almost a 20 per cent increase in a short period of time. Moreover, the pace of entrepreneurs joining the Party increased after Jiang's 1 July speech. Of the co-opted entrepreneurs, 31.5 per cent joined between 2002 and 2004, the years after the ban on entrepreneurs joining the Party was lifted. In addition, of the non-Party members in the sample, 50.3 per cent reported they were interested in joining the Party, and of them 30.9 per cent had applied to join. To put it differently, 75 per cent of the entrepreneurs in this survey, who represent the economic elites of their communities, were either in the Party or wanted to be (compared to 66.7 per cent in the 1999 survey). That indicates a dramatic and positive response, consistent with the intended results of the CCP's new recruitment strategy, but inconsistent with anecdotal reports of a much more limited impact. The remarkably precise and low number of private entrepreneurs who reportedly joined the Party in 2004 (noted above) may simply have reflected the new rhetoric rather than the current reality: under Hu and Wen, the CCP wanted to downplay the idea that it is beholden to private economic interests.

To understand the CCP's strategy for co-opting entrepreneurs, we need to consider both *where* the CCP recruited entrepreneurs as well as *which* specific entrepreneurs it sought to recruit. Given its primary goal of promoting economic growth, we would expect that the CCP to focus on the areas where the economy is growing most rapidly, where the private sector is largest and where the Party's presence in the private sector is relatively weak. Within those areas, it would target the owners of large-scale enterprises. These large firms employ more workers and contribute more tax revenue to local coffers, and therefore are particularly important to the local economy and more suitable for Party-building efforts.

The survey data support these predictions, as shown in Table 2 (note: in this analysis, *xiahai* entrepreneurs are excluded, because I am interested in which private entrepreneurs the Party recruited and by definition *xiahai* entrepreneurs were already in the CCP before opening their private enterprise.) First, co-opted entrepreneurs were more likely to live in communities with fast-growing economies and a large private sector. The coefficients for "per capita GDP" and "per capita GDP growth" indicate that the level of development and the rate of growth have opposite effects for where the Party recruits entrepreneurs. The statistically significant and negative coefficient for level of development indicates that entrepreneurs living in a prosperous county are slightly less likely to be recruited into the Party.<sup>37</sup> The rate of growth had a positive and significant impact on the probability of recruitment: entrepreneurs were more likely to be

37 That may be because two of the poorest counties in both the 1999 and 2005 surveys had relatively high percentages of co-opted entrepreneurs, whereas the richest county had the lowest proportion of co-opted entrepreneurs. A test for a curvilinear, inverted U shaped relationship between per capita GDP and the percentage of co-opted entrepreneurs in a locality was negative.

Table 2: **Determinants of Party Recruitment among Private Entrepreneurs in China (probit regression coefficients, with robust standard errors in parentheses)**

	1999	2005
Contextual factors		
Level of development (per cap GDP, 1,000 yuan)	-.059 (.040)	-.093*** (.019)
Rate of growth (previous five years)	-.003 (.002)	.012** (.004)
Size of private sector (non-state firms in county [%])	---	1.846*** (.400)
CCP in private sector in county (%)	---	-.073** (.028)
CCP members in county population (%)	---	.222* (.101)
Firm characteristics		
Sales revenue (log)	.090 (.064)	.152*** (.039)
Individual characteristics		
Age (years)	-.004 (.015)	-.022* (.010)
Gender	.048 (.356)	.389* (.162)
Level of education	.378*** (.109)	.381*** (.087)
<i>Getihu</i> background	-.126* (.059)	.002 (.134)
Years in business	.068* (.027)	.052*** (.018)
Years in county	.030** (.011)	.016** (.007)
Communist Youth League member	.773** (.250)	.491** (.155)
Constant	-3.192** (1.032)	-4.066*** (.857)
N	293	654
Chi <sup>2</sup>	44.99***	113.70***
Pseudo R <sup>2</sup>	.249	.192

\* p<.05, \*\* p<.01, \*\*\* p<.001

recruited in counties with rapid economic growth (relative to other counties in the sample) between 1999 and 2003. In addition, living in a county with a large private sector (measured by the share of non-state firms in county) also made it more likely that private entrepreneurs would be co-opted.

The CCP also targeted areas with low proportions of Party members working in the private sector. This is shown by the negative and statistically significant coefficient for “CCP in private sector in county (per cent).” This percentage is based on aggregate data provided by local organization departments, not the survey data (unfortunately, I do not have comparable data for all eight counties in the 1999 survey). The negative coefficient indicates that co-opted entrepreneurs were more likely to be in counties where the number of Party members among all the people working in the private sector was relatively low. In counties that already had large proportions of Party members in the private sector, local officials presumably had less need to co-opt more entrepreneurs. The impact of “CCP members in county” is positive and statistically significant for the 2005 data. This could be due to the Party’s recruitment strategy, if it did not want entrepreneurs to constitute such a large share of the local Party membership. This would be consistent with the populist shift associated with Hu Jintao and Wen Jiabao after the 16th Party Congress.

In addition to these contextual factors, the size of the enterprise matters to the CCP: all else being equal, the larger the “sales revenue” of a

firm,<sup>38</sup> the more likely its owner is a Party member.<sup>39</sup> Why should this matter? The main reason is their importance to the local economy: larger firms produce more tax revenue and provide more jobs. There is also a practical reason. In its Party-building efforts, the CCP first focused on the largest firms and it soon discovered that Party building was easier and more successful when the firm was owned by a Party member. As shown in Table 3, red capitalists are far more likely to have Party organizations in their firms, have workers who have been recruited into the CCP, and prefer to hire Party members. In other words, red capitalists facilitate Party building in the private sector.

Table 3: **Impact of CCP Membership on Private Firms, 1999 and 2005**

	1999	2005
Firms with Party organizations (%)		
<i>All entrepreneurs</i>	18.4	28.9
<i>Xiahai</i> entrepreneurs	33.1	46.3
Co-opted entrepreneurs	38.5	44.1
Want to join CCP	10.0	15.7
Do not want to join CCP	7.5	10.2
Firms whose workers have joined CCP in recent years (%)		
<i>All entrepreneurs</i>	24.7	39.5
<i>Xiahai</i> entrepreneurs	36.3	55.7
Co-opted entrepreneurs	37.5	57.0
Want to join CCP	20.7	32.1
Do not want to join CCP	15.3	14.4
Entrepreneurs who would prefer to hire a Party member over a non-Party member, all else being equal (%)		
<i>All entrepreneurs</i>	54.1	62.0
<i>Xiahai</i> entrepreneurs	63.5	73.4
Co-opted entrepreneurs	77.3	77.1
Want to join CCP	62.9	69.0
Do not want to join CCP	31.8	30.2
Believe that Party members have advantages in business (%)		
<i>All entrepreneurs</i>	43.8	49.6
<i>Xiahai</i> entrepreneurs	37.3	57.1
Co-opted entrepreneurs	51.5	56.6
Want to join CCP	59.0	58.2
Do not want to join CCP	32.9	26.7

38 Sales revenue is analysed using its natural log because most firms are bunched together at the low end of the scale: the mean value is 12.46 million yuan with a standard deviation of 47.33 million (which indicates the skewed distribution of sales revenue), and the median is 2 million. Fixed assets or the number of workers in a firm could also be used to measure the size of the firm, but both are highly correlated with annual sales. Using either sales, fixed assets or the number of workers to measure firm size yields similar results; including more than one makes them all statistically insignificant.

39 It could also be true that larger firms are a consequence, not just a cause, of being co-opted. In order to sort this out, I would need to know how large the firm was before the owner joined the Party, but I do not have that information. An indirect test is to see if the firms were larger the longer the entrepreneur had been in the Party. When age, education, and gender are controlled for, however, the number of years in the Party was not correlated with the size of the firm's sales.

Other factors that influenced the CCP's co-optation strategy are consistent with the Party's general criteria for recruiting new members: the CCP prefers young, male and highly educated candidates for membership. In fact, as recruiting entrepreneurs became a regular part of the task of Party building, the pattern of which entrepreneurs the Party recruited became more like the general criteria. Annual reports of overall Party recruitment results highlight that approximately three-quarters of new members were 35 years of age or younger and have at least a high school education. The same is true for private entrepreneurs. In the 1999 survey, 65 per cent of them joined the Party when they were 35 or younger, but 77 per cent did so in the 2005 survey. Men were about one-third more likely than women to be co-opted in the 1999 survey, but almost twice as likely in the 2005 survey. In overall Party recruitment, men are about four times more likely to join the Party than women, so the odds are better for women if they are successful entrepreneurs. The odds of an entrepreneur being recruited were better than one in three for those with a college degree, about one in four for those with a high school degree, but less than one in eight for those with a middle school education or less. Education standards for women may be higher than for men: in the 2005 survey, 88.9 per cent of women entrepreneurs co-opted into the Party had college degrees, compared to only 36.7 per cent of men. With limited spots allotted to women, they may face higher educational requirements. Membership in the Communist Youth League remains the fast track to Party membership, as shown by its large and statistically significant coefficient. Of the co-opted entrepreneurs, 88.7 per cent had been in the Communist Youth League in the 1999 survey, and 83.9 per cent in the 2005 survey. Ironically, most of the non-CCP entrepreneurs (56.2 and 64.3 per cent in the 1999 and 2005 surveys, respectively) had also been in the League. In the case of entrepreneurs, the CCP also prefers those who have roots in the community: the longer the entrepreneurs had been in business and the longer they lived in their current county, the more likely they were to be co-opted into the Party.

Why do private entrepreneurs want to join the CCP? The most obvious reason is economic benefits: in the 2005 survey, 51.3 per cent of co-opted entrepreneurs and 54.3 per cent of those who wanted to join the CCP said a main motivation was the economic benefits to themselves or their firm. Good political connections are always useful in business, and especially so in China, where the market economy is still not fully developed and is subject to political intervention. Membership in the Party, and in particular whether an entrepreneur joined the Party before or after going into business, is an important correlate of the characteristics of private firms in these samples. As shown in Table 4, firms owned by Party members have higher sales revenues, more workers and higher levels of fixed assets than non-members. Not surprisingly, most red capitalists, and those who want to be, agree that Party members have advantages in business (Table 3). Those who do not want to join the Party are much less likely to share this viewpoint: 22.2 per cent of this group said Party membership made little difference for the enterprise. Another 18.1 per

Table 4: **Characteristics of Surveyed Private Enterprises, 1999 and 2005**

	1999	2005
Annual sales (million RMB)		
<i>All entrepreneurs</i>	3.5	12.5
<i>Xiahai entrepreneurs</i>	5.3	18.6
Co-opted entrepreneurs	3.4	13.6
Want to join CCP	3.1	7.2
Do not want to join CCP	2.6	8.5
Number of workers		
<i>All entrepreneurs</i>	41.8	74.4
<i>Xiahai entrepreneurs</i>	75.4	95.5
Co-opted entrepreneurs	38.6	91.4
Want to join CCP	27.5	55.5
Do not want to join CCP	28.9	54.5
Fixed assets (million RMB)		
<i>All entrepreneurs</i>	2.3	7.0
<i>Xiahai entrepreneurs</i>	4.3	10.3
Co-opted entrepreneurs	2.1	6.7
Want to join CCP	1.7	4.5
Do not want to join CCP	1.6	5.0

cent said they were too busy to join, which is consistent with Party membership making little difference: if it provided substantial benefits, they would undoubtedly find the time to apply. This attitude indicates that the CCP's growing support for the private sector benefits even non-Party entrepreneurs.

The survey data also reveal that the CCP's presence in the private sector grew dramatically between 1999 and 2005. Throughout the 1990s, the near absence of Party organizations and recruitment in private firms was a cause of concern for the CCP. *People's Daily* reported that of the 1.2 million private firms in 1998, only 14 per cent had Party members and only 0.9 per cent had Party cells.<sup>40</sup> The weakness of Party building in the private sector was reportedly one of the motivations behind the CCP's efforts to promote Jiang Zemin's "Three Represents" slogan.<sup>41</sup> As previously noted, because red capitalists are more likely to have Party organizations in their firms, recruiting more entrepreneurs would also allow the CCP to expand its presence in the private sector. In addition, entrepreneurs who want to gain access to China's formal political institutions are more willing to create Party organizations in their firms to show their support for the Party.<sup>42</sup>

40 *Renmin ribao*, 12 September 2000, p. 11. On 19 June 2006, Xinhua reported that the CCP had created Party organizations in "97.9% of the 98,000 private businesses of more than 50 staff members that meet conditions of establishing CPC organizations." This is a tad misleading: China had over 3.6 million private enterprises in 2004, so the statement applies at best to less than 3% of China's private firms, and then only to firms with at least three Party members. This is a very selective subgroup of the private sector. In my 2005 survey, only 28.9% of all firms, and only 48.1% of the firms with at least 50 workers, had Party organizations.

41 You Dehai, "'Sange daibiao' tichu de jingguo yi fabiao de beijing" ("The process of raising and background of issuing the 'Three Represents'"), *Xuexi yu shijian* (Wuhan), September 2000, pp. 18–20, 45.

42 Chen Guangjin, "1992–2004 niande siying qiyequ jiecheng: yige xin jiecheng de changcheng" ("Private entrepreneurs from 1992 to 2004: the expansion of a new social stratum"), in Zhang Houyi et al. (eds.), *Zhongguo siying qiye fazhan baogao, No. 6 (2005) (A Report on the Development of China's Private Enterprises)* (Beijing: Shehui kexue wenxian chubanshe, 2006), pp. 251–57.



Party membership also brings with it expectations that may deter some entrepreneurs from joining. The most important is increased scrutiny over firm activities. Red capitalists are far more likely than non-Party members to have Party organizations in their firms, and also more likely to have Party members among their workforce (Table 3). This could obviously be a deterrent for some entrepreneurs, who might prefer that the CCP not be able to monitor their firms. If the survey data reported here are indicative of other areas in China, then the CCP's Party-building efforts in the private sector are yielding demonstrable results, especially in firms owned by red capitalists. But the data also indicate that some entrepreneurs prefer to remain outside the Party's embrace.

### *Membership in local people's congresses and political consultative conferences*

In addition to being members of the Party, many entrepreneurs also belong to other prominent political bodies, further integrating them into the political system. At the National People's Congress in spring 2003, 55 entrepreneurs were selected as deputies. Among the delegates to the Tenth Chinese People's Political Consultative Conference also held in 2003 were 65 entrepreneurs from private and non-state firms.<sup>43</sup> Nationwide, over 9,000 entrepreneurs have been elected to people's congresses (PCs) and 30,000 to people's political consultative conferences (PPCCs) at the county level and above.<sup>44</sup>

In my two surveys, nearly the same percentage of respondents were PC or PPCC delegates in both 1999 and 2005 (see Table 5), suggesting a rough quota on the number of entrepreneurs able to be delegates.<sup>45</sup> The distribution of the kinds of entrepreneurs who served, however, changed dramatically. In particular, the percentage of *xiaohai* entrepreneurs among PC delegates grew from 40.7 to 58.6. In the PPCCs, which are designed to be a forum to allow Party and government officials to consult other local elites on a range of policy-related matters, the percentage of red capitalists grew; in the 2005 survey they constituted a slight majority of the entrepreneurs in these bodies.

A multivariate analysis of membership in local PCs and PPCCs puts these descriptive statistics in better perspective (Table 6). Both *xiaohai* and co-opted entrepreneurs are more likely to have been PC delegates than are entrepreneurs who do not belong to the CCP. In addition, members of local industrial and commercial federations (*gongshanglian* 工商联) (ICFs), which represent the

43 "More private entrepreneurs enter China's top advisory body," *People's Daily Online*, 2 March 2003.

44 Zhang Houyi, "Jinru xin shiqi de Zhongguo siying qiye zhu jiceng" ("Chinese private entrepreneurs enter a new era"), *2004 nian: Zhongguo shehui xingshi fenxi yu yuce (Blue Book of China's Society 2004: Analysis and Forecast of China's Social Development)* (Beijing: Shehui kexue wenxian chubanshe, 2004), p. 318.

45 Ao Daiya criticized this tendency for the CCP to arrange entrepreneurs' participation, because the limited number of spots allotted to them in China's formal political institutions could not meet the growing demand for increased participation; see "Siying qiye zhu zhengzhi canyu yanjiu baogao" ("Report on the political participation of private entrepreneurs"), in Zhang Houyi *et al*, *A Report on the Development of China's Private Enterprises*, pp. 69–70.

Table 5: **Percentage of Private Entrepreneurs in Political Posts**

	1999	2005
People's congress		
<i>All entrepreneurs</i>	11.3	10.5
<i>Xiahai entrepreneurs</i>	19.1	18.0
Co-opted entrepreneurs	24.6	15.5
Want to join CCP	5.1	3.0
Don't want to join CCP	5.6	4.5
People's political consultative conference		
<i>All entrepreneurs</i>	4.9	5.3
<i>Xiahai entrepreneurs</i>	6.1	4.2
Co-opted entrepreneurs	6.5	8.9
Want to join CCP	4.4	6.5
Don't want to join CCP	3.8	3.4
Village chief or representative council		
<i>All entrepreneurs</i>	16.1	13.7
<i>Xiahai entrepreneurs</i>	22.8	20.2
Co-opted entrepreneurs	40.6	21.4
Want to join CCP	10.7	10.3
Don't want to join CCP	6.2	3.4

Table 6: **Determinants of Political Participation by Private Entrepreneurs, 2005 (probit regression coefficients, with robust standard errors in parentheses)**

	People's congress	People's political consultative conference	Village chief or representative council
Political characteristics			
<i>Xiahai entrepreneurs</i>	.653*** (.155)	-.341 (.228)	.793*** (.144)
Co-opted entrepreneurs	.812*** (.189)	.188 (.206)	.824*** (.156)
ICF member	.484*** (.128)	.875*** (.165)	-.042 (.124)
Firm characteristics			
Enterprise revenue (log)	.106** (.038)	.170*** (.051)	-.080* (.036)
Individual characteristics			
Age (years)	.035*** (.012)	.017 (.012)	.111* (.056)
Age <sup>2</sup>	---	---	-.001* (.000)
Gender	.045 (.224)	-.196 (.291)	-.207 (.182)
Level of education	1.183* (.467)	-.019 (.094)	-.205** (.072)
Level of education (squared)	-.203* (.081)	---	---
Years in business	.017 (.013)	.033* (.015)	.022 (.012)
Years in county	.005 (.006)	-.014* (.006)	.018* (.008)
Contextual factors			
Level of development (per capita GDP (1,000 yuan))	-.001 (.009)	-.060*** (.013)	-.026*** (.008)
Size of private sector (non-state firms in county [%])	-.667* (.269)	-.193 (.315)	-.111 (.219)
Constant	-5.654*** (.918)	-2.153** (.705)	-2.803* (1.181)
N =	1019	1019	1019
Chi2 =	117.68***	76.76***	91.02***
Pseudo R2 =	.220	.235	.142

\* p &lt; .05; \*\* p &lt; .01; \*\*\* p &lt; .001

economic elite of the community, are also more likely to be delegates. ICF leaders nominate candidates for PCs, and they prefer to nominate their own members. This again symbolizes the integration of wealth and power, as economic elites are chosen for spots in formal political institutions. The older the entrepreneurs are and the larger the sales volumes of their enterprises, the more likely they have been PC delegates. The level of education has a curvilinear impact: those with high school degrees have a higher probability of serving as PC delegates than those with less education as well as those with college degrees. Ironically, entrepreneurs living in counties with large private sectors have a lower chance of having been PC delegates. If there is a quota on how many entrepreneurs can be selected as PC delegates, as indicated above, then the odds of any given entrepreneur being selected will be lower in communities with a large pool of entrepreneurs to choose from. The other explanatory variables have little impact.<sup>46</sup>

For PPCCs, the results are quite different. Party membership is not a significant factor because membership in these local bodies is roughly evenly divided between Party and non-Party members. However, ICF membership and the sales volumes of their enterprises have positive and significant impacts; ICF leaders also select PPCC delegates and here again they prefer to pick their own. The negative and statistically significant coefficient for the level of local economic development, as measured by per capita GDP, suggests serving in a local PPCC is more common in less developed areas; however, given the relatively small coefficient and that there were only eight counties in the sample, this finding is quite tentative. What may not be expected, however, is the negative coefficient for the number of years respondents had lived in their current counties. From these data, it would appear that relative newcomers have a better chance of being chosen as PPCC delegates than do longer-term residents, at least among the entrepreneurs in this sample. This again indicates that these large-scale focus groups represent the local elites, not the communities as a whole.

For both these types of political participation, local economic elites – those with the largest firms and ICF membership – are most likely to be granted access.

### *Participation in village elections*

Being a candidate in village elections remains a common form of political participation for entrepreneurs (see Table 5). Overall, 13.7 per cent of the respondents in the 2005 survey had been candidates in elections for either village chiefs or representative councils. This is a slight decline from the 1999 survey, in which 16.1 per cent of the entrepreneurs had been candidates. In both surveys,

<sup>46</sup> The rate of economic growth between 1998 and 2003 did not have a significant effect on participation in people's congresses, political consultative conferences or village elections, and did not interact with the other variables, so was dropped from the model.

the vast majority of those who had been candidates (72.5 per cent in 1999 and 75.2 per cent in 2005) were Party members, reflecting the Party's desire to keep all political participation under its control. But here again the types of entrepreneurs who had been candidates changed. A majority of the candidates, 50.3 per cent, were *xiaohai* entrepreneurs in the 2005 survey. This does not reflect more participation by this group (the percentage of *xiaohai* entrepreneurs who had been candidates in village elections declined from 22.8 in 1999 to 20.2 in 2005), but merely their growing share of the numbers of red capitalists. It does, however, suggest that a different dynamic may be at work at the local level. Previously, co-opted entrepreneurs were most likely to run as candidates, suggesting they were most interested in acquiring political positions to match their economic influence. In 1999, 40.6 per cent of the co-opted entrepreneurs had been candidates, but in 2005 only 21.4 per cent had. More research is needed to find out why, but it may be because they encounter too much interference from higher levels, find that the pressures of political office are detrimental to their business interests, or find that the political climate has shifted in favour of the private sector, making it less necessary for them to acquire political office.

The multivariate analysis of Table 6 highlights these relationships. Party membership again makes it more likely that an entrepreneur has been a candidate. ICF membership makes no discernible difference in being a candidate in village elections; unlike PC and PPCC delegates, who are nominated by ICF leaders, village candidates are largely self-selected. The level of development of the county was again negative and statistically significant. What is worth noting here are the variables that do not have the usual effects. The relationship between age and candidacy in village elections is curvilinear: middle-aged entrepreneurs are more likely to have been candidates than either younger or older entrepreneurs. This is in contrast to PC and PPCC delegates, where the relationship with age was positive rather than curvilinear. The entrepreneurs' level of education was negatively related to village candidacy, meaning that entrepreneurs with more education were less likely to be candidates (a test for curvilinearity was negative). The coefficient for sales revenue is negative and statistically significant, indicating that entrepreneurs with the largest firms are less interested in village leadership positions. In other words, higher education, individual prosperity and living in a prosperous community do not increase the odds that entrepreneurs have been candidates in village elections. Normally, these variables increase political participation,<sup>47</sup> but for at least this form of participation they have the opposite effect, suggesting that electoral candidacy is not seen as an effective means of participation for private entrepreneurs with these characteristics.

47 R. Kent Jennings, "Political participation in the Chinese countryside," *American Political Science Review*, Vol. 91, No. 2 (1997), pp. 361–72; Tianjian Shi, "Cultural values and democracy in the People's Republic of China," *The China Quarterly*, No. 162 (2000), pp. 540–59.

### Summary

In all three types of political posts analysed above, two related and recurring themes stand out: red capitalists hold a growing share of these posts, and *xiaohai* entrepreneurs in particular have increased in prominence. The CCP is not only relying on former officials and SOE managers to help it monitor the private sector, it is also giving them preferential treatment in granting them access to political posts, whether directly elected or selected with the approval of local officials. This is consistent with its overall strategy of survival: it prefers that political participation be under Party control, and prefers that those who are active in politics be trusted Party members unlikely to challenge the status quo. As shown in the section below, China's private entrepreneurs and red capitalists in particular are not only increasingly integrated into the political system, they have views that are increasingly similar to those of local Party and government officials, making them unlikely agents of political change.

### Shared Interests, Shared Views

As noted earlier, the CCP has had two motivations for integrating itself with the private sector: to co-operate on sustaining rapid development and to prevent China's capitalists from becoming an organized political opposition. The analysis of the previous section showed how the first goal was put into practice, and continued high economic growth is implicit proof that it has been successful.<sup>48</sup> But has the CCP also been able to prevent opposition on political issues? More specifically, are the policy preferences of entrepreneurs significantly different from those of Party and government officials?

The growing integration of political and economic elites can be seen not only in the institutional ties detailed above, but also in the converging policy preferences on key issues related to development and its consequences. While Kellee Tsai has questioned whether China's capitalists have the kind of shared viewpoints that would characterize them as a coherent class, from the CCP's perspective the more important question is whether their range of policy preferences are substantially different from those of the state.<sup>49</sup> According to respondents in the two surveys, there was little difference between the state and business on most key policy issues, and what gaps there were narrowed between 1999 and 2005. China's capitalists may not share a unified viewpoint, but neither do they have viewpoints that pose a direct challenge to the status quo or to the CCP in particular.

48 On the other hand, the growing incidence of corruption also indicates that the integration of political and economic elites also has costs, both for the CCP and for the country as a whole. On this point, see Melanie Manion, *Corruption by Design: Building Clean Government in Mainland China and Hong Kong* (Cambridge, MA: Harvard University Press, 2005); Yan Sun, *Corruption and Market in Contemporary China* (Ithaca: Cornell University Press, 2004); and Pei, *China's Trapped Transition*.

49 Tsai, "Capitalists without a class."

The survey data indicate overall satisfaction with the pace of economic, political and social change. The overwhelming majority of both entrepreneurs and officials were satisfied with the pace of economic reform, with clear increases from 1999 to 2005 in the percentages of those who felt it was “about right,” and even larger decreases in those who feel it was too slow (see Table 7). Among entrepreneurs, the level of development influences views on this issue. In the poorer counties, 25.2 per cent of the businessmen believed that the pace of reform was too slow, compared to 11.2 in the richer counties. In the areas that had not yet prospered under the reforms, support for a faster pace of change was understandably highest. Among officials, in contrast, there was no difference due to the level of development.

On the issue of the pace of political reform, there was a similar but smaller central tendency among entrepreneurs, with decreases in the percentages who believed it was either too fast or too slow and a consequent increase in the percentage who believed it was “just right.” The large and increasing percentage of those who expressed satisfaction with the pace of political reform suggests support for the Party’s agenda. However, it is also true that the percentage of entrepreneurs who believed the pace of political reform was too slow was twice as large as those who believe the pace of economic reform was too slow. What types of political reforms they would support remains to be seen, but at a minimum we can infer from these data that entrepreneurs would not support a slowing down of political reform.

One of the most salient differences in development strategy is the trade-off between economic growth and political stability. The need to preserve stability amidst rapid economic development is a primary justification for maintaining authoritarian rule, in China as well as many other countries.<sup>50</sup> This trade-off became particularly salient in China as local protests increased sharply. The

Table 7: **The Pace of Reform in China (%)**

	Entrepreneurs		Cadres	
	1999	2005	1999	2005
Pace of economic reform				
Too fast	9.7	12.5	8.9	9.4
About right	58.9	70.3	60.6	68.2
Too slow	31.4	17.2	30.5	22.4
Pace of political reform				
Too fast	5.7	4.4	5.6	--*
About right	55.1	59.8	37.5	--*
Too slow	39.1	35.8	56.9	--*

Note:

\* This question was not asked of cadres in the 2005 survey.

50 Samuel P. Huntington, “The goals of development,” in Myron Weiner and Samuel P. Huntington (eds.), *Understanding Political Development: An Analytic Study* (Boston: Little, Brown, 1987).

number of public protests more than doubled during the period between the two surveys, from 32,000 in 1999 to 87,000 in 2005.<sup>51</sup> Many of these protests were the consequence of rapid growth, such as the conversion of agricultural land for industrial development, environmental degradation and official corruption. This growing threat to stability, and the attention given to it by Beijing, should have helped change the views of local officials, leading them to attenuate their support for growth at the expense of stability.

Survey data allow us to see how this trade-off between growth and stability is perceived at the local level, both between levels of the state and between political and economic elites. Both cadres and entrepreneurs were asked whether their top priority was promoting growth or maintaining stability. One of the most remarkable findings in the first survey was the apparent cleavage between cadres and entrepreneurs on this trade-off, one of the few where the two groups were diametrically opposed.<sup>52</sup> However, disaggregating cadres reveals a more interesting story: the difference is not between cadres and entrepreneurs but between county cadres and the rest of the respondents (see Table 8).<sup>53</sup> In 1999, county cadres were most in favour of promoting growth as their top priority: 76.2 per cent favoured growth over stability, almost double the percentage of township/village cadres and entrepreneurs. The difference between township/village cadres and entrepreneurs was not significant. These results are not surprising: the first survey was conducted at the highpoint of the growth-first strategy of the Jiang Zemin era, and county cadres had a strong incentive to support growth over stability. Economic growth was a “hard target” they had to meet in order to get favourable annual reviews and increase their prospects for promotion.<sup>54</sup> Township and village officials are at the front line of defence

**Table 8: Preference for Growth over Stability among Cadres and Entrepreneurs (% of those who prefer growth over stability as top goal)**

	1999	2005
<i>All entrepreneurs</i>	41.7	44.6
<i>Xiahai entrepreneurs</i>	39.1	42.9
Co-opted entrepreneurs	29.9	47.3
Want to join CCP	42.1	42.1
Don't want to join CCP	47.9	47.5
<i>All cadres</i>	60.6	49.1
County cadres	76.2	59.3
Township/village cadres	39.6	41.6

51 Richard McGregor, “Data show social unrest on the rise in China,” *Financial Times*, 19 January 2006.

52 *Red Capitalists in China*, pp. 132–34.

53 Kent Jennings earlier showed the importance of disaggregating the bureaucratic levels of Party and government officials when comparing the views of state and society, and he properly pointed out my failure to do likewise in my previous study. See his “Local problem agendas in the Chinese countryside as viewed by cadres and villagers,” *Acta Politica*, Vol. 38 (2003), pp. 313–32.

54 Kevin J. O'Brien and Lianjiang Li, “Selective policy implementation in rural China,” *Comparative Politics*, Vol. 31, No. 2 (1999), pp. 167–86; Maria Heimer, “The cadre responsibility system and the changing needs of the Party,” in Kjeld Erik Brodsgaard and Zheng Yongnian (eds.), *The Chinese Communist Party in Reform* (London: Routledge, 2006).

against popular protest and political instability. While they also need to promote economic growth, the responsibility for stability falls upon them. But the change in priority from the elitism of the Jiang era to the populism of the Hu /Wen era is only partially reflected in the perceptions of local leaders. In 2005, a clear majority of county officials remained in favour of growth over stability, even though the percentage dropped relative to 1999. The numbers for township/village officials and entrepreneurs, however, showed a slight increase in those who favoured growth, but the majority of these groups still made maintaining stability their top priority. Differences among entrepreneurs and between entrepreneurs and township/village cadres are not statistically significant in 2005, but the difference between both groups and county cadres is ( $p[t] < .001$ ).

The level of economic development has a limited impact on these results. In 1999, the differences among cadres and between county cadres and entrepreneurs were significant in all eight counties ( $p[t] < .001$ ), regardless of their level of development. Similarly, the difference between township/village cadres and entrepreneurs was not significant in any county. In 2005, the differences between county cadres and the other groups narrowed, and in the four least developed counties the differences were no longer statistically significant. In a multivariate analysis (not shown here), those living in the most prosperous counties where long-term growth and expansion of the private sector was fastest were more likely to prefer stability to growth, all else being equal.

Where do threats to stability come from? Motivations for unrest in China are highly context dependent, and it was not possible to ask about particular conflicts in the different counties. But respondents were asked more general questions about causes of instability. Their responses are shown in Table 9, and several trends are worth highlighting. First, on every question in both the 1999 and 2005 surveys, county level cadres had the lowest scores, indicating that on average they were less concerned with threats to stability arising from economic competition and social pluralism than were township and village officials and all groups of entrepreneurs. In contrast, the views of township/village officials were largely similar to those of entrepreneurs. Second, on the three questions concerning increasing pluralism or diversification, all groups of entrepreneurs saw less of a threat to stability in 2005 than in 1999. In a few cases, the decline was slight, but mostly was greater than five percentage points. Changes among cadres were not as systematic. Third, the biggest difference is on the first question regarding competition: in both years, all groups of entrepreneurs were more concerned about this threat to stability than were officials, and that concern grew between 1999 and 2005, both in absolute terms and relative to officials. Although concerns about social diversity declined for all groups of entrepreneurs, concern about economic competition rose for all of them. Finally, both entrepreneurs and cadres saw economic competition as less of a threat to stability than political and social diversity. In both surveys, entrepreneurs and officials agreed on the rank ordering of threats to stability: economic competition was lowest, competition between parties was highest, and



Table 9: Perceived Threats to Stability among Private Entrepreneurs and Local Officials (% who agreed with the statements below)

	1999	2005		1999	2005
1. Competition between firms and individuals is harmful to social stability					
All entrepreneurs	24.5	26.4	All cadres	11.9	12.2
<i>Xiahai</i> entrepreneurs	18.7	22.5	County cadres	9.9	10.1
Co-opted entrepreneurs	22.7	27.7	Township/village cadres	14.7	13.8
Want to join CCP	25.2	27.8			
Don't want to join CCP	29.2	29.4			
2. If a country has multiple parties, it can lead to political chaos					
All entrepreneurs	48.0	45.7	All cadres	40.5	40.4
<i>Xiahai</i> entrepreneurs	50.8	49.9	County cadres	36.9	33.9
Co-opted entrepreneurs	47.7	47.3	Township/village cadres	45.3	45.3
Want to join CCP	49.3	44.8			
Don't want to join CCP	42.9	39.8			
3. If everybody does not share the same thinking, society can be chaotic					
All entrepreneurs	37.6	30.7	All cadres	22.0	21.6
<i>Xiahai</i> entrepreneurs	33.9	33.1	County cadres	16.7	18.7
Co-opted entrepreneurs	43.1	26.1	Township/village cadres	29.5	23.8
Want to join CCP	43.6	31.5			
Don't want to join CCP	33.8	29.7			
4. Locally, if there were many groups with different opinions, that can influence local stability					
All entrepreneurs	43.3	34.8	All cadres	33.8	28.8
<i>Xiahai</i> entrepreneurs	40.0	30.5	County cadres	32.3	16.9
Co-opted entrepreneurs	46.5	31.3	Township/village cadres	35.8	37.5
Want to join CCP	41.3	38.9			
Don't want to join CCP	44.7	38.6			

competition among individuals and groups fell in between. While the absolute levels varied over time and among subgroups, the rank ordering was the same. This similarity, especially between entrepreneurs and township and village officials, indicates the common interests and shared views among China's economic and political elites.

The changing views of co-opted entrepreneurs merit highlighting. This group has the greatest potential for being an agent of change if it were to bring new policy preferences into the Party, but these survey data indicate it is becoming increasingly satisfied with the current state of affairs. In the 1999 survey, it was the most concerned subgroup among the entrepreneurs about the potential for growth to threaten stability, but in 2005 it was the least concerned. Similarly, the percentage of co-opted entrepreneurs who felt pluralism was a threat to stability fell by a larger amount than did either the percentages of *xiahai* entrepreneurs or non-Party entrepreneurs. Although the percentage who felt the pace of political

reform was about right declined slightly, from 61 to 59, the percentage who felt the pace of economic reform was about right increased from 62 to 72. These findings do not indicate any significant degree of discontent that would lead co-opted entrepreneurs to press for political change. Instead, the growing levels of satisfaction on these related indicators suggest that co-opted entrepreneurs, and most entrepreneurs in general, are not likely to pose a political challenge under the current circumstances. Rather than being potential agents of change working from within the Party, they may prove to be a key source of support for the Party's agenda. This outcome would vindicate the CCP's strategy of co-opting them.

## Conclusion

The emergence of private entrepreneurs in China reveals anomalies in China's still nominally communist political system, but the Party has been able to adapt its Leninist institutions enough to accommodate them. The CCP is increasingly integrating itself with the private sector, both by co-opting entrepreneurs into the Party and encouraging current Party members to go into business. It has opened the political system to new private economic actors, but still screens which ones are allowed to play political roles. Red capitalists operate the largest firms and are the most likely to be involved in the political arena. Indeed, most of them were already in the CCP before joining the private sector and are more likely to support the status quo. The integration of wealth and power in China is designed to sustain the existing authoritarian political system rather than pose a direct challenge to it. This is a key element of the CCP's strategy for survival, and so far it is working.

The results presented in this article reinforce the findings of my earlier study, and those of other scholars that have looked at the potential for China's private entrepreneurs to be agents of political change. In contrast to the popular perception that privatization is leading inexorably to democratization, and by extension that China's capitalists are democrats at heart, the most recent survey data suggest that they are increasingly integrated into the current political system. They are part of the status quo, not challengers on the outside looking in. On a variety of political questions, the views of entrepreneurs are remarkably similar to local Party and government officials. This again suggests that the growing shared interests of government and business are creating an environment that supports the status quo, rather than one in which businessmen are motivated to press for change.

The close relationship between political and economic elites has drawn the ire of those who feel that these ties are the cause of much of the corruption that plagues China today and of those who feel that the prospects for business success are skewed in favour of Party members. Both of these sentiments are the direct result of Jiang Zemin's elitist strategy of the 1990s, in which the Party courted newly emerging economic and social elites at the expense of its

traditional base of support, workers and peasants. Although current leaders Hu Jintao and Wen Jiabao have adopted more populist policies to quell dissatisfaction over high levels of inequality and cronyism, they have not gone so far as to abandon the goal of rapid growth that led to the expansion of the private sector and the growing numbers of red capitalists. So long as the CCP sees high rates of economic growth as a foundation of its legitimacy, the Party's embrace of the private sector is unlikely to loosen.

### **Appendix: The Data**

The data used in this article come from two surveys completed in 1999 and 2005. Four Chinese provinces were selected (Hebei, Hunan, Shandong and Zhejiang), and within each province two counties or county-level cities were selected (in all, three counties and five county-level cities; one of the county-level cities had become a district of a prefecture-level city by the time of the 2005 survey). The counties were selected according to their level of economic development in the late 1990s: one relatively prosperous and one relatively poor county were chosen in each province. The same eight counties made up the 2005 survey, regardless of their current level of development, allowing me to observe trends over time. Although the local rates of economic development varied, the rank ordering of the counties by level of development was nearly identical, with the exception of the sixth and seventh poorest counties, which reversed places.

The survey targeted two specific groups: the owners and operators of private enterprises, and the local Party and government cadres with either general executive responsibilities or particular authority over the private economy. In each county, entrepreneurs were selected from three townships and towns where the private economy was relatively developed for that particular county. A sampling pool was created using name-lists of enterprises provided by the Industry and Commerce Management Bureau. From this pool, entrepreneurs were selected using a random start, fixed interval system. In both the 1999 and 2005 surveys, the strategy was to concentrate on relatively large scale firms, those with annual revenue of over 1 million RMB, but in practice, this had to be relaxed. In some counties, the size of the private sector was too small to make this a feasible criterion for inclusion; in other counties, the private sector was large but the size of the firms was small (only firms with eight or more workers were included in the sample), again making the 1 million RMB threshold occasionally impractical. The second targeted group was local officials, specifically chosen based on their areas of responsibility: county-level Party and government cadres, including the Party and government leaders and those in charge of the relevant political, economic and united front departments; township and town (*xiangzhen* 乡镇) cadres from the places of the enterprises in the sample; and village-level cadres. In each county, approximately 30 cadres were selected. Separate questionnaires were used for these two groups, but most

questions were asked of both. The questionnaires were self-administered under the supervision of the survey team, who also checked the identity of the respondents to be sure they were the actual owners of the enterprise, and not a family member or manager. The 1999 survey included 524 entrepreneurs and 230 cadres, and the 2005 survey included 1,058 entrepreneurs and 279 cadres.

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