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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 *xiahai* 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.

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,