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978-0-521-87845-6 - Wealth into Power: The Communist Party's Embrace of China's Private Sector

Bruce J. Dickson

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I

Introduction

After three decades of rapid economic growth in China, many observers believe that continued economic reform, and privatization in particular, is leading to eventual political change. China's economic reforms are creating the independent sources of wealth, power, and influence that scholars have shown to be key factors in a country's democratization. These economic and social changes have created expectations of a coming political change in China. Just as Chinese consumers have grown accustomed to freedom of choice in the market, they are also expected to begin demanding the right to choose their political leaders. China's growing numbers of private entrepreneurs and urban middle class are also expected to push for the increased transparency and accountability that democracy provides.

However, neither the Chinese Communist Party (CCP) nor China's capitalists have been willing to follow this script. Instead of engaging in conflict and confrontation, China's political and economic elites are increasingly intertwined, cooperating on producing national development and colluding in accumulating personal wealth. The CCP has not been a passive actor in the process of economic and social change 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

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and social development.¹ It has selectively accommodated some interests while suppressing others. In particular, it has limited the types of organizations that 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 although dissenting views occasionally appear, they are normally quickly removed. China has promoted the flow of information and allowed the types of organizations that are conducive to economic development while simultaneously preventing the same tools to be used for political purposes. These efforts have raised the costs of collective action and lowered the prospects for immediate political change. Rather than being on the wrong side of history, as President Bill Clinton famously warned Jiang Zemin during the latter's visit to the White House in 1997, China may represent an alternative to the conventional wisdom that democracy and markets must go together. China's recent experience has been described as the "Beijing consensus" and shows how countries can be increasingly prosperous economically while remaining steadfastly authoritarian politically.

For their part, China's capitalists are being increasingly integrated into the political system. Many are members of the CCP, making them "red capitalists." But most red capitalists were already in the party before going into business and took advantage of their political connections to become economically successful. A growing number of capitalists also participate in China's formal political institutions from the grass roots to the national level, including legislative and executive posts, and even party committees. Their participation is not solely by their own initiative, however; the CCP screens and approves all those who are elected or appointed to political posts. It arranges their participation in order to accommodate their interest in greater participation, to elicit their continued support, and to make sure that those who gain

¹ Bruce Bueno de Mesquita and George W. Downs, "Development and Democracy," *Foreign Affairs*, vol. 84, no. 5 (September–October 2005), pp. 77–86. Sheri Berman makes a similar argument regarding political parties in Western democracies. Socioeconomic and cultural changes did not have the predicted impact on parties because parties were able to adapt in different ways; see Sheri Berman, "Life of the Party (Review Article)," *Comparative Politics*, vol. 30, no. 1 (October 1997), pp. 101–122.

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access to the political system will not present a threat to the status quo. As a result, most capitalists in political posts are red capitalists. They are already integrated into the most important political institution in China – the CCP – before being appointed to other posts. Because of their close personal and professional ties and 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 being promoters of 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.

This book will elaborate on this argument, relying primarily on original survey data with private entrepreneurs and party and government officials. In this chapter, I will begin with a look at the theoretical basis for linking economic development with democracy, compare some of the empirical findings from China, and then present a brief summary of the following chapters, where the relationship between the CCP and the private sector will be explored in greater detail.

EXPLANATIONS OF DEMOCRATIZATION

The Chinese Communist Party's support of the private sector has been an increasingly prominent part of its economic reform strategy. Similarly, its embrace of the private sector has been a key part of its efforts to adapt 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 cooperation 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 from becoming an organized opposition. As such, the practice of co-opting entrepreneurs has been an essential part of the CCP's strategy for survival. At the same time, the alliance between political and economic elites, symbolized by

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the growing number of “red capitalists,” is bringing new interests and new people into the political system. What impact is this trend having on China’s still nominally communist system?

In the following sections, I will look at the expectations of modernization theory, the link between capitalism and democracy, and the role of civil society in both undermining and supporting incumbent regimes.

Consequences of Modernization

The attention paid to private entrepreneurs as potential agents of political change in China is partially because of the resumption of interest in modernization theory that accompanied the “third wave” of democratization and the recognition of the link between markets and democracy.² The correlation between wealth and democracy is one of the most studied topics in political science. This relationship was first elaborated by Seymour Lipset and later replicated in numerous other studies. Although many scholars debated the direction and degree of causality, few denied the correlation between economic prosperity and political democracy.³

Modernization theory posited that support for democracy was the result of social and cultural changes brought about through economic modernization. Labor shifted from the primary sector (agriculture) to the secondary and tertiary sectors (industry and services), which was accompanied by the emergence of a politically powerful capitalist class; the population shifted from rural to urban areas; education levels rose; science and technology replaced tradition and superstition. These

² Seymour Martin Lipset, “Some Social Requisites of Democracy: Economic Development and Political Legitimacy,” *American Political Science Review*, vol. 53, no. 1 (March 1959), pp. 69–105; Samuel P. Huntington, *The Third Wave: Democratization in the Late Twentieth Century* (Norman: University Oklahoma Press, 1991); Larry Diamond, *Developing Democracy: Toward Consolidation* (Baltimore: Johns Hopkins University Press, 1999).

³ Lipset, “Some Social Requisites of Democracy,” pp. 69–105; Seymour Martin Lipset, “The Social Requisites of Democracy Revisited: 1993 Presidential Address,” *American Sociological Review*, vol. 59, no. 1 (February 1994), pp. 1–22; Huntington, *Third Wave*; Ronald Inglehart, *Modernization and Postmodernization: Cultural, Economic, and Political Change in 43 Societies* (Princeton, NJ: Princeton University Press, 1997); Diamond, *Developing Democracy*.

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sociodemographic changes in turn led to changes in values; together, they created the foundations of stable democracies.⁴ Despite the many critiques of modernization theory, the simple and intuitive logic linking economic and political change is too seductive for many scholars and policy analysts to ignore. The causal relationships, however, remain complex and controversial. Does economic growth lead to democracy, or do the political and legal institutions of democracy set the conditions for stable economic development? Do democratic values emerge before a democratic transition or as the consequence of living under democratic institutions?

Scholars routinely point out the fallacies of the modernization theory perspective, especially the simplistic notion that economic development and political change go together in a linear and deterministic way.⁵ Nevertheless, some observers use the conceptual connection between development and democracy to predict political change in China in the near future. For example, Henry Rowen predicted that China would be democratic by 2015, at which time he projected that per capita income would reach \$7,000 (in 1990 U.S. dollars, based on purchasing power parity). At this point, the increased demand for political liberties would push China toward democracy; five years later, using revised economic data, he pushed back his prediction by another five years to 2020.⁶ The implication of his argument is that faster growth would shorten the time until China became democratic. Shaohua Hu is even more optimistic, anticipating that China will be democratic by 2011 because the obstacles to democracy, including a backward and stagnated economy, are breaking down.⁷ Larry Diamond observed that economic development in China “is creating a

⁴ In addition to the works of Lipset, Inglehart, and Diamond already cited, see also Gabriel Almond and Sidney Verba, *Civic Culture: Political Attitudes and Democracy in Five Nations* (Princeton, NJ: Princeton University Press, 1963); Robert A. Dahl, *Democracy and Its Critics* (New Haven, CT: Yale University Press, 1989).

⁵ Adam Przeworski and Fernando Limongi, “Modernization: Theories and Facts,” *World Politics*, vol. 49, no. 2 (January 1997), pp. 155–183; Ross E. Burkhardt and Michael A. Lewis-Beck, “Comparative Democracy: The Economic Development Thesis,” *American Political Science Review*, vol. 88, no. 4 (December 1994), pp. 903–910.

⁶ Henry S. Rowen, “The Short March: China’s Road to Democracy,” *The National Interest*, no. 45 (Fall 1996), pp. 61–70; Henry S. Rowen, “The Growth of Freedoms in China,” APARC Working Paper, Stanford University, 2001.

⁷ Shaohua Hu, *Explaining Chinese Democratization* (Westport, CT: Praeger, 2000).

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more complex, pluralistic, self-confident, resourceful society . . . *sooner or later*, economic development will generate growing pressures (and possibilities) for China to make a definitive regime change to democracy.”⁸ In 2004, Bruce Gilley wrote that, “the amount of wealth in China is probably already sufficient to finance democratic transition.” What is missing, he argued, is the courage of party elites to initiate democratization.⁹ Ronald Inglehart and Christian Welzel offer a more nuanced argument based on a revised version of modernization theory. Classical modernization theory posits that political values necessary for a stable democracy emerge in response to economic development and the social and political changes that accompany modernization. According to Inglehart and Welzel, the most important value is the desire for self-expression, which they argue is a more reliable predictor of liberal democracy than interpersonal trust, membership in associations, and even per capita GDP. Over the past generation, Chinese have enjoyed increased freedom of choice in the economic realm while still being denied equivalent political freedoms, including, most of all, freedom of expression. Accordingly, Inglehart and Welzel predict that China will become democratic within 15–20 years (i.e., by 2025) in response to “growing societal pressure to liberalize.”¹⁰

Democratization is not simply an automatic result of economic development and value change, however. Although they may facilitate the consolidation of democracy, they are less necessary for the transition to democracy. Adam Przeworski and Fernando Limongi tested some of the main elements of modernization theory using time series data from a wide range of countries and found that there was no simple correspondence between economic change and the timing of democratization.¹¹ The cases of postwar Germany and Japan, and “third

⁸ Diamond, *Developing Democracy*, p. 265, emphasis added.

⁹ Bruce Gilley, *China's Democratic Future: How It Will Happen and Where It Will Lead* (New York: Columbia University Press, 2004), p. 64.

¹⁰ Ronald Inglehart and Christian Welzel, *Modernization, Cultural Change, and Democracy: The Human Development Sequence* (Cambridge: Cambridge University Press, 2005), quoted from p. 156.

¹¹ Przeworski and Limongi, “Modernization”; See also Burkhart and Lewis-Beck, “Comparative Democracy.” A rejoinder by Carles Boix and Susan C. Stokes found a closer fit between economic growth and political change as predicted by modernization theory, but only for first-wave democracies (i.e., European and North American countries that democratized before the 20th century); see Carles Boix and Susan C.

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wave" democratizers such as South Korea and Taiwan, show that democratic values are not necessary prerequisites for democratization but can emerge as a consequence of personal experience in a democratic system. Although Rowen approvingly quotes Przeworski and his colleagues as finding that above \$6,000 per capita GDP (or \$8,000 in 1998 dollars) "democracies are impregnable and can last forever," he ignores the more important finding that no level of economic development guarantees a democratic transition, and the possibility that any type of regime can survive above this threshold as long as it can maintain economic growth. Moreover, critics of these predictions based largely on economic development point out that despite the obvious trend of economic growth in China, liberalization or democratization is being inhibited by such factors as unclear property rights, the state's ambivalence over privatization, local protectionism, labor unrest, the heavy role of the state in economic development, and more importantly the common backgrounds and shared interests of the emerging private entrepreneurs and middle classes and state officials.¹²

Despite these criticisms, the insights of modernization theory are echoed in the beliefs of many Chinese: China is not yet ready for democracy because the level of economic and cultural development is still too low, its urban population is relatively small, and so on. Many are willing to accept claims by party leaders that a long period of development must precede democracy in China. Regardless of whether they have read Lipset, Inglehart, or Diamond, many in China accept the link between development and democracy.¹³

Stokes, "Endogenous Democratization," *World Politics*, vol. 55, no. 4 (July 2003), pp. 517–549.

¹² David Zweig, "Undemocratic Capitalism: China and the Limits of Economism," *The National Interest*, no. 56 (Summer 1999), pp. 63–72; David S. G. Goodman, "The New Middle Class," in Merle Goldman and Roderick MacFarquhar, eds., *The Paradox of China's Post-Mao Reforms* (Cambridge, MA: Harvard University Press, 1999); Zhaohui Hong, "Mapping the Evolution and Transformation of the New Private Entrepreneurs in China," *Journal of Chinese Political Science*, vol. 9, no. 1 (Spring 2004), pp. 23–42; Mary Elizabeth Gallagher, *Contagious Capitalism: Globalization and the Politics of Labor in China* (Princeton, NJ: Princeton University Press, 2005); Kellee S. Tsai, *Capitalism without Democracy: The Private Sector in Contemporary China* (Ithaca, NY: Cornell University Press, 2007).

¹³ For a thoughtful and wide-ranging assessment of Chinese views toward democracy, see Suzanne Ogden, *Inklings of Democracy in China* (Cambridge, MA: Harvard University Asia Center, 2002).

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Another tradition in political science has focused on how economic development, and in particular capitalism and industrialization, gives rise to new social classes, which in turn push for greater inclusion and influence in the political system. Comparative research has shown the important role that capitalists have played in political development, in some cases as agents of change, in others as a primary source of political support for the incumbent regime. Samuel Huntington found that one of the main threats to an authoritarian regime is the “diversification of the elite resulting from the rise of new groups controlling autonomous sources of economic power, that is, from the development of an independently wealthy business and industrial middle class.”¹⁴ Barrington Moore’s oft-quoted phrase “no bourgeois, no democracy” has had tremendous influence on the link between capitalism and democracy and has often been interpreted to mean that capitalists are likely vehicles for democratization.¹⁵ Moore argued that democracy arose in Europe when early capitalists pressured their monarchs to lift barriers to industrialization and trade and formed parliaments to oversee the crown and government. In this set of historical developments, the creation of sources of wealth independent of the state led to demands for greater participation by new elites to protect their private interests.

Capitalist development may be associated with democracy not because of inherently democratic qualities of capitalists but because of the structural changes it brings about, especially the weakening of the landed aristocracy and the expansion of the working class. But the case of China, like that of many late-developing countries, does not resemble the feudal states that Moore studied. During the reform era,

¹⁴ Samuel 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), p. 20. See also Dietrich Rueschemeyer, Evelyne Huber Stephens, and John D. Stephens, *Capitalist Development and Democracy* (Chicago: University of Chicago Press, 1992).

¹⁵ Barrington Moore, *Social Origins of Dictatorship and Democracy: Lord and Peasant in the Making of the Modern World* (Boston: Beacon Press, 1966), p. 418. Moore’s phrase is equally quoted and misquoted: many authors misquote him as “no bourgeoisie, no democracy,” which seems to be more grammatically correct. In fact, the copy editor of my *Red Capitalists in China* made this same “correction” in the text without my realizing it.

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there has been no landed aristocracy for China's capitalists to struggle against; the CCP eliminated that class during the land reform of the 1950s. Nor was the emergence of the private sector in China the result of determined efforts by capitalists to wrest power and privileges from the state; rather, it was the result of the state's own initiatives. In fact, at the beginning of the reform era, there was no capitalist class in China; it only emerged after the party initiated wide-ranging economic reforms. Moreover, the private sector is populated by many who came out of the state sector. Most of China's "red capitalists" were in the party before taking the plunge into private business, and at least one-quarter of private firms were originally part of state-owned enterprises. Close personal and familial ties continue to link the public and private sectors. This is not a scenario that Moore had in mind. It is hard to speak of a clash between communist leaders and capitalist business owners in China when so many capitalists are deeply embedded in the party.

More recent studies have noted the complex and ambiguous contribution of capitalists to the transition from authoritarianism.¹⁶ Capitalists may prop up an authoritarian regime because they benefit materially or because they are worried that political change will harm their economic interests. Their political activism is often limited to economic issues that directly affect their immediate interests and does not extend to broader political issues. Moreover, the literature on business associations in developing countries also emphasizes collective action efforts on economic and commercial matters while paying less attention to strictly political matters.¹⁷

In both first-wave democracies and late-developing countries, capitalists may push for their own inclusion in the political system but

¹⁶ Leroy Jones and Il SaKong, *Government, Business, and Entrepreneurship in Economic Development* (Cambridge, MA: Harvard University Press, 1980); Guillermo O'Donnell and Philippe C. Schmitter, *Transitions from Authoritarian Rule: Tentative Conclusions about Uncertain Democracies* (Baltimore: Johns Hopkins University Press, 1986); Huntington, *Third Wave*; Rueschemeyer, Stephens, and Stephens, *Capitalist Development and Democracy*; Sylvia Maxwell and Ben Ross Schneider, eds., *Business and the State in Developing Countries* (Ithaca, NY: Cornell University Press, 1997); Edmund Terence Gomez, ed., *Political Business in East Asia* (London: Routledge, 2002).

¹⁷ Jones and SaKong, *Government, Business, and Entrepreneurship in Economic Development*; Maxwell and Schneider, *Business and the State in Developing Countries*; Gomez, *Political Business in East Asia*.

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generally do not favor wider expansion of political participation by other social classes. But once capitalists 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 support (or at least political neutrality) to more overt opposition.¹⁸ Even where capitalists have supported democratization, they have rarely been first movers. Instead, their role is more like king-makers: their support can tip the balance between the continuation of authoritarian rule and the transition to democracy. Where workers have been the primary agents of change, the shift of capitalists' support away from the state toward the democratic opposition has often been the tipping point needed for democratization to succeed.¹⁹ Although businesspeople rarely initiate the push for democracy, they have been necessary allies for democratic movements initiated by the working classes. In countries as diverse as South Korea, the Philippines, Brazil, Peru, Ecuador, and Spain, democratization was facilitated when businesspeople and the broader middle classes shifted their support from the government to the opposition.²⁰ These comparative examples have created expectations for China's capitalists to also be agents of political change.

Even in countries where capitalists have supported democratization, they have not been natural or constant supporters. In a variety of late-developing countries, capitalists have been at best "contingent democrats," as Eva Bellin put it. Their support for democracy is a function of their level of dependence on the state and their fear of the social unrest that often accompanies political openings. In many late developers, capitalists depend on the state for their access to financing, technology, and markets; for protection from foreign competition; for keeping labor low-paid and quiescent; and for having lenient policies on environmental protection and safety standards. The more capitalists depend on the state to protect their material interests, the more likely they are to prefer "cozy collaboration with

¹⁸ Stephan Haggard and Robert R. Kaufman, *The Political Economy of Democratic Transitions* (Princeton, NJ: Princeton University Press, 1995).

¹⁹ Rueschemeyer, Stephens, and Stephens, *Capitalist Development and Democracy*.

²⁰ Huntington, *Third Wave*, pp. 67–68; O'Donnell and Schmitter, *Transitions from Authoritarian Rule*; Eva Bellin, "Contingent Democrats: Industrialists, Labor, and Democratization in Late-Developing Countries," *World Politics*, vol. 52, no. 2 (January 2000), pp. 175–205.