

# China's Business Leaders: Assuming a Political Role?

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## Letting the Capitalists In

In July 2001, Jiang Zemin caused something of a stir. Jiang was then the president of China and head of the ruling Chinese Communist Party (CCP). In a major speech, he proposed that business people be allowed to become members of the party. For some, this was close to heresy. Throughout its history, the CCP had proclaimed itself to be the party of China's workers and peasants, and been ambivalent towards the classes that allegedly exploited the poor. At best, it had seen capitalists as a necessary and temporary evil during its struggle for power and in the later building of socialism. At worst, it had expropriated the property of members of the bourgeoisie and ostracized them politically. Now, after fifty-plus years of communist rule, the CCP seemed prepared to offer political legitimacy to some of its former adversaries. The poster child for the Jiang proposal is Zhang Ruimin, the chairman of the board and CEO of the Haier Group, a leading manufacturer of refrigerators, freezers, air conditioners, and other home appliances. Zhang took over a small, failing refrigerator firm in eastern Shandong province in 1984 and by 2001 had turned it into the fifth or sixth largest appliance manufacturer in the world, with exports to over 160 countries and around \$10 billion in sales. China lacks for strong companies and brands with a global reach. Zhang Ruimin is the exception that proves the rule, and at the CCP's sixteenth congress in November 2002, he was selected as a member of the party Central Committee.

Allowing individuals like Zhang into the CCP raises questions about the future of the Chinese system, as evidenced by the reactions of observers on different points of the political spectrum. Left-wing elements in the CCP opposed Jiang's initiative because they feared that including people whose ideological bent was fundamentally at odds with communism would undermine the party's rule. They feared that the emergence of private business as an independent power center might be a challenge to the party's monopoly of power. For them, letting the fox into the chicken coop was not a good way to protect the hens. People on the other side of the spectrum, those who wanted fundamental political change in China, found in Jiang's proposal a cause for hope. Perhaps, they said, the Chinese business community might use its empowerment to promote a freer, more competitive, and more accountable system — in short, democracy. It might, in the language of social science, become part of a Chinese civil society that would check or challenge the hitherto hegemonic party-state.

## China's Private Entrepreneurs

The emergence of the Chinese business community was a principal side-effect of the economic policies of the last twenty-six years. In the late 1970s, there were virtually no private business people in China. After coming to power in 1949, the CPP worked to create a command economy with only a limited role for private economic activity. Chinese firms that had been established in the first half of the twentieth century, before the communist victory, were "socialized." During the Cultural Revolution, the former capitalists were held up as the antithesis of Maoist values and a threat to national security. Then, in 1978, with the restoration of reformists like Deng Xiaoping, the party decided that its political survival depended on stimulating rapid growth. That in turn required ending government control over the entire economy and permitting activity outside the state structure. No longer would the state plan dictate most economic decisions. No longer would the state-owned enterprises be the only actors in the production of goods and services. Instead, the state permitted a variety of other economic entities to emerge to supplement the state sector in what, increasingly, came to look like a market economy. Liberalization occurred slowly at first, because it contradicted ideological orthodoxy and raised the specter of political instability. Thus, reformers took steps gradually and could only convince the doubters of the need for more privatization and marketization when initial reforms did not have the expected results. The Tiananmen Incident provided an excuse for re-imposing some controls, but Deng reinvigorated reform in 1992. Thereafter, the economy grew at around eight percent a year and freedom for economic activity expanded as well. The number of private or semi-private business people mushroomed as a result. A survey of private enterprises released in November 2003 revealed that the number of registered private entrepreneurs rose from 238,000 in 1993 to 2.435 million in 2002. China's business class is a varied group. There are a large number of petty entrepreneurs who run small family firms that provide a wide array of goods and services. There are executives of larger, privately owned enterprises, some fairly modest and others quite large. There are managers of collective enterprises. These are not state-owned enterprises per se, but they are arms of local governments and the individuals who run them may at one time have been government officials. There are individuals who run enterprises that are basically state firms but which, through some sort of legal legerdemain, have been made to appear private. There are the Chinese executives in foreign firms, either joint-ventures or wholly-

owned subsidiaries. And there are the “red capitalists,” individuals who have worked in the state sector and then “jumped into the sea” of private business, sometimes when their old firms were privatized. By one count in 2001, there were 26 million small companies and 2.3 million larger private firms of various types. Together, they employed 73 million people. Jiang Zemin concluded that the CCP had to adjust to new social groups like the entrepreneurs that economic and social liberalization of the 1980s and 1990s had created, even if they could not be fit within an orthodox Marxist framework. For him, the party had a choice. It could stick with its traditional social base — workers and peasants — and so risk alienating everybody else. Or it could expand its base and accommodate itself to the growing complexity of Chinese society. Jiang chose accommodation, and under an ideological innovation termed the “three represents,” he called for the CCP to represent the entire Chinese people, including the growing business community. Better inclusion than exclusion. Although Chinese and foreign observers ridiculed Jiang’s purported innovation in Marxist theory, he was actually giving legitimacy to a process that had already begun. In some parts of China at least, local officials have come to recognize that they have much to gain from the success of private businesses and their managers. If these companies are successful, they provide employment to people who are either unemployed or under-employed. Private firms also produce tax revenues that fund the activities of government. These officials were more than willing to collaborate with entrepreneurs in order to facilitate future growth. In situations where all concerned saw economic development as the central priority, therefore, business and the state had no inherent conflict of interests. Moreover, officials brought entrepreneurs into the local power structure and found ways to reward them for their contributions to the community. As of 2002, over 9,000 private executives were members of people’s congresses above the county level. Over 32,000 were members of people’s consultative conferences, a parallel hierarchy of congresses made up of non-party groups. In March 2003, there were 55 private entrepreneurs selected as delegates to the National People’s Congress (the CCP-controlled legislature) and 65 selected to attend the National People’s Political Consultative Conference (NPPCC), which is made up of representatives of various social groups (again, communist-controlled). Nor was Jiang’s July 2001 proposal to bring capitalists into the party quite as revolutionary as it seemed. The CCP had allowed private entrepreneurs to join before 1989. It banned the practice after Tiananmen on ideological grounds, but local officials did not strictly enforce the prohibition. So the number of people in the private sector who became party members continued to grow in the 1990s. To their number were added the “red capitalists,” former officials who moved from the state into business during the 1990s. The most common route was the privatization of state-owned and collective-owned enterprises. Half of the executives of these firms were and still are members of the communist party (although they are less subject to its discipline). Combining these two very different groups, the proportion of private business people who were CCP members grew from 13.1 percent in 1993 to 29.9 percent in 2002 — almost a third of the total. Much of the increase can be attributed to the privatization of state firms. So Jiang in 2001 was seeking to restore a policy that had been adopted in the past, and to legalize what was already happening. And because a significant share of the private sector is now made up of former officials, which creates a different kind of state-business collusion, his initiative was less significant than it seems at first glance. Still, the idea of CCP membership for business people is intriguing because it contradicts the anti-capitalist bias usually associated with communist parties. That ten private tycoons were delegates to the CCP national congress in November 2002, and that business representatives are now taking courses at the Central Party School, are further indications of the innovations that characterize China today. On the other hand, the idea that business people might actually pose a threat to one-party rule or subvert an organization that has on its own abandoned its old ideological moorings seems bizarre. That fear may say more about the paranoia of more left-wing elements for whom Marxism-Leninism is still important. Still, allowing entrepreneurs to join the CCP and otherwise co-opting them is a symptom of a larger issue. That is, will there come a time when they decide that the state’s still-central role in the economy and the CCP’s still-central role in the state is so contrary to their interests that they as a group organize to exert political pressure for policy change? The party’s more leftist leaders certainly believe that it is the nature of capitalists to challenge CCP rule. Leaders like Jiang believe and hope otherwise, that business interests can be reconciled with the party’s imperative of preserving control and a political challenge avoided. Bringing them into the party is one means to that end. But the leftists have something of a point: if this new social force became seriously alienated politically, it would not matter that a third or more of their number were members of the communist party.

### **A Fifth Column?**

What do we know about the political opinions of private Chinese business people and whether and how they might pose a challenge to the communist regime? Based on surveys of their views, there is some justification for concerns about their political reliability. A substantial majority support greater marketization of the economy and broader political reform. These views are not terribly detailed and mainly reflect a desire that the change that is already occurring should continue and happen more quickly. And there are a lot of variations. Executives of large operations are more in favor of economic liberalization than heads of smaller ones. Those in private firms are less interested in

political change than their counterparts in joint ventures. Business representatives in developed areas are more conservative politically than their counterparts in poorer areas (which belies the hypothesis, heard often in the West, that economic prosperity will necessarily foster demands for political change). Still, entrepreneurs tend to believe that the regime is not reforming China fast enough.

A principal reason that business people want more change is their treatment at the hands of the state, particularly local officials. Take, for example, the case of Sun Dawu, a rural entrepreneur in the north China province of Hebei, as reported in August 2003 by *The New York Times*. Sun came from a farming family and worked early on in the Agricultural Bank of China. In 1985, he set out on his own and created a business that leased idle land and then used it for raising pigs and chickens. The company subsequently diversified into food processing, cattle breeding and grape growing. For his success, Sun was rewarded with a seat in the local people's congress, a fairly powerless body. But he faced continuing obstacles in securing financing for his ventures. The state banks would not lend to him, preferring larger, state-owned firms or private entrepreneurs who would "encourage" loans by offering favors to bank officers. Sun solved the problem by creating a private credit cooperative and attracting deposits by paying interest rates that were slightly higher than those of the state banks. The latter soon suffered from this competitive strength of Sun's cooperative. They sought relief and Sun ended up in jail, charged with "illegal fund-raising."

Sun Dawu was a relatively small fish, caught by the net of a system that acts in a rather arbitrary way when crossed. His case and others like it are only the most obvious manifestations of widespread state interference in the economy. Officials have a number of levers that they can pull to complicate the lives of business people: control over licenses, allocation of economic resources like land and capital, and implementation of regulations. Moreover, local officials often demand "favors" in return for favorable consideration. Such arbitrary intervention increases the cost of doing business and only widens the unpredictable universe in which businesses have to operate.

Whether business people might in fact mount some sort of political challenge against the regime because of these grievances, the CCP by its actions betrays an anxiety that they will. The state has created mechanisms to co-opt entrepreneurs in order to forestall becoming an independent force. These are a set of business associations through which the party maintains organizational control over various kinds of business people. The Self-Employed Laborers' Association is composed of operators of small enterprises. The Private Enterprises' Association has as its members the heads of medium sized firms. And the Industrial and Commercial Federation is made up of executives of the largest companies.

These three associations are hierarchical in nature, with headquarters in Beijing and branches in the provinces and lower administrative units. In each administrative jurisdiction, it is a state organization that funds and staffs association units. Only one association of each type is allowed in each administrative unit. If business people were to try to create their own autonomous organization to compete with the state-sponsored one, the authorities would force it to disband. These associations are part of the communist party's Leninist playbook. That is, when a social group is both necessary to achieve the CCP's goals and might pose a political challenge, that group is brought under the organizational umbrella of the party-state in order to monitor and control its activities. Private business is no exception.

### **Modes of Influence**

Even when business people like Sun Dawu do face official interference, as a group they are rather apathetic politically. They do complain about continuing harassment from local officials. They do want reform to continue. Yet they believe that it should occur incrementally, from the top down, and not endanger stability. And they do not translate their grievances regarding state intervention in economic activity into a belief that China needs democracy — or take any initiative to bring it about.

In fact, entrepreneurs themselves have not seen overt, organized political action as the best way to pursue their interests. For them, organized protest or lobbying is not effective in coping with state interference. Their default response instead has been to rely on connections and clientelist relationships to grease the economic skids. Executives have sought to limit arbitrary actions by officials usually through bribery, gift-giving, securing high-level protection and giving local cadres an employment or financial stake in the company. Relying on this very relationship-based mode of influence actually makes some sense. In many cases, it is not government policy itself that impedes the conduct of business, but the adverse implementation of policy on a very individual basis by local officials. Because the state's intervention in the economy tends to be particularistic, a particularistic response is required. If the government had a stronger capacity to prevent its lower-level officials from "seeking rents," or if business people

believed the state could be encouraged to create that capacity, then collective political action might be considered. Yet the state's capacity to control corruption by its officials is notoriously weak. So under the current institutional arrangement in China, an efficient way to secure relief from arbitrary interference is not to seek to mobilize other business people, which has a cost in terms of time and other resources, but to simply buy off the person creating the problem.

Studies of businesses' political behavior through the mid-1990s found that buying off officialdom was the most common approach, and that complaining to those same officials did little or no good. More recently, there are signs that business associations have taken on a more useful role. They are no longer just a means for the state to monitor and control their members, as originally intended, but increasingly are becoming a way in which business people can pursue their interests. Bruce Dickson found through a series of interviews that business people believed that the associations were effective in solving the practical problems they faced, such as securing loans, resolving disputes, getting permits, and facilitating the movement of goods. There were variations, of course. Executives of smaller firms tended to rely on their association more than those of larger firms (probably because the latter had other channels of influence). Businesses in developed areas were more satisfied with their associations than those in poorer areas. All business people believe that associations can influence policy, with those in less developed areas more optimistic than those in more affluent areas. That associations may be placing more emphasis on representing constituency interests and less on imposing control — and the fact that their constituents believe they are effective — may have broader implications for their political role. Business interests have a way to challenge the state, should they ever see the need to do so.

Still, the role that these organizations play in providing assistance and influence in no way constitutes a fundamental challenge to the status quo. It is consistent with a collaborative relationship between business and the state. Associations are most effective in providing specific solutions to resolve specific problems. And they may be more a convenient context in which individual business people can pursue personal connections with specific officials. Whether the organizations might have a broader impact remains to be seen. Indeed, Dickson found that officials tend *not* to believe that business associations are effective in influencing policy (contrary to the views of business people themselves).

### **The Hegemonic State**

The growth of a business class in China fostered some optimism among those who have hoped for a more open political system. Entrepreneurs would become part of a civil society, a necessary condition for a liberal and competitive order. American advocates of closer economic ties with China have sometimes argued that a stronger private sector will foster political change. Yet these optimists have failed to take into account some key factors, particularly the dominant role of the Chinese state.

Whether social groups like business people can exercise political influence, particularly on broad issues like political reform, depends on the channels that they have at their disposal. And aside from the limited routes that have opened up since the beginning of reform — associations and collusive personalistic ties — there is precious little at their disposal.

Business people have become members of some institutions that have a superficially representative character, such as people's congresses, people's political consultative conferences, and the communist party itself. Yet their selection is controlled from above and their representation in those bodies is miniscule: 55 out of 2,985 deputies to the National People's Congress; 65 out of 2,238 delegates to the national PPPC, and 10 out of 2,154 delegates to the National Party Congress. These bodies provide some opportunities for members to voice grievances. The National People's Congress has become more than a rubber-stamp legislature and provides an opportunity during the law-drafting process for outside groups to state their views. Yet the primary purpose of these organizations is to legitimate CCP rule (rather than provide arenas for political combat). Legislation is written within the executive branch and the members of the National People's Congress who have any impact on its content tend to be former officials. Jiang Zemin's July 2001 speech did not stimulate a rush of applications by business people to join the communist party (which might have been the case if it were seen as a useful channel). The fact is that China remains a fairly centralized system when it comes to making economic or any other policy. The CCP dominates the government and other institutions. The executive branch of government is far more powerful than bodies of a representative character. Even government think tanks that specialize in economic issues have relatively little influence over policy. The National People's Congress recently passed an amendment to the constitution that provided that, "legally

obtained private property of the citizens shall not be violated." That was an important development for China's business people, but the process that produced that outcome was more top down than bottom-up.

Enforcement is another matter. The regime lacks the capacity to ensure that its lower-level officials implement policy as formulated and that they do not abuse their power and control over critical resources to their personal advantage. Without effective supervisory, investigative, prosecutorial, and judicial institutions, Beijing is unable to control the corruption that still afflicts private business, and entrepreneurs lack a channel for correcting abuses. The best they can do is hope local officials are not too predatory, either because they appreciate the contribution the private sector makes to the economy, or, in the case of former officials who are running privatized firms, are former colleagues.

There is, moreover, the question of how business people might use broader modes of influence (beyond specific problem-solving) even if such modes existed. First of all, some of the issues that entrepreneurs face are with other businesses and not with the state. In these cases, one economic interest competes with another for preferential treatment from the government. There are other issues, of course, where businesses have common interests. Official corruption in general is one example. The regulatory environment is another. The absence of an independent judiciary is yet another. But even if there was a desire to bring about systemic change in these areas and better channels to act on that desire, mounting a collective effort to secure reform is quite difficult in a practical sense. Each party to a joint effort will be tempted not to spend their resources on the effort if there is the chance of receiving the benefit free of charge. It may be seen as "cheaper" to cope with the corruption or regulations directly with the officials concerned than to invest in broader change. This would be particularly true for former officials.

Finally, there is the question of whether business people would use better access to bring about a democratic system (as opposed to lesser forms of political change). That is unlikely, for democracy would open the political system to other social sectors whose interests would conflict with business (workers, for example). The attitude of the Hong Kong business community to an electoral system based on universal suffrage is a case in point.

## Conclusion

In sum, the CCP regime understands the need to accommodate newly emerging social forces. It is prepared to permit business people some entrée into the establishment, in terms of membership in the communist party and the network of legislatures. In at least some parts of China, there has emerged a collaborative relationship between local officials and entrepreneurs. Associations are useful channels for solving specific problems. But paying off predatory officials is still common. Yet businesses lack other modes of influence. Policy-making remains quite centralized and the institutions that might ensure business-friendly implementation of policy are too weak. What private entrepreneurs would prefer ideally is a technocratic system that would permit them greater access to the creation of policy and reliable and accountable implementation. China is slowly becoming that kind of technocratic state. For the present, however, neither the fears of the leftists that capitalists will subvert communist party rule, nor the hopes of political reformers that they will form a civil society and form a vanguard for democracy, are likely to materialize.

1 In writing this essay, I drew heavily on Margaret M. Pearson, *China's New Business Elite: The Political Consequences of Economic Reform* (Berkeley: University of California Press, 1997); Bruce J. Dickson, *Red Capitalists in China: The Party, Private Entrepreneurs, and Prospects for Political Change* (New York: Cambridge University Press, 2003); and Ray Yep, *Manager Empowerment in China: Political implications of rural industrialization in the reform era* (New York: Routledge Curzon, 2003). Jonathan Tang provided valuable research assistance.

2 These findings come primarily from Pearson, *China's New Business Elite*, and Dickson, *Red Capitalists in China*.

3 See, for example, Pearson, *China's New Business Elite: The Political Consequences of Economic Reform*, pp. 110-115; David L. Wank, *Bureaucratic Patronage and Private Business: Changing Networks of Power in Urban China*, in *The Waning of the Communist State: Economic Origins of Political China and Hungary*, ed. Andrew Walder (Berkeley, Cal.: University of California Press, 1995), pp. 153-183.