

## THE INCORPORATION OF CHINA'S BUSINESS ELITE: AN ANALYSIS OF ONE ASPECT OF STATE POLITICAL POWER

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### ABSTRACT

The strict Maoist Communism that dominated China from 1949 to 1978 led to the suppression of the Chinese business elite. Since the late 1970's, the business elite has been incorporated officially and unofficially into the Chinese Communist Party (CCP). After a brief crackdown following the crushing of the Tiananmen Square student movement in 1989, this emergent elite has been especially favored. The CCP has elected to incorporate business into the Party in order to keep the group check, lest it become a rival to the state. So far, this incorporation has not shown signs that it will lead to democracy.

### INTRODUCTION

The ability to incorporate elites is one aspect of a state's political power. The inability of a state to satisfy an elite's desire for political power can lead to civil collapse. Elites are distinctive. Their power is disproportionate to their numbers and may rely on resources, connections, and influence. Elites often have much autonomy from the state.

The business elite in contemporary China emerged as a result of recent economic reforms. Their newfound wealth, foreign ties, education, and resources make them a powerful group. If these attributes are not invested in the political system, they could threaten the power of the CCP. The links often drawn between market economies and democracy might suggest that this group is a threat to the current regime. But the success of the CCP in co-opting the business elite offers insight into the party's continuing political power.

The CCP came into power in 1949. From 1949 to 1966, the state consolidated its power around the "liberated classes" of peasants and workers. Any autonomy of the "capitalist classes" was not tolerated (Pearson 1997:58). The most important attribute for Party membership was class origin, and the CCP grew from 4.5 million members to 18 million between 1949 and 1965 (Bian, Shu, and Logan 2001:810). The Communists set out to reeducate capitalists. The Wufan campaign<sup>1</sup> of 1951-52 was one such reeducation plan, consisting of self-criticism sessions led by Party cadres to harass those who came from "bad" bourgeois classes (Pearson 1997:60).

The basic strategy of the state was to eliminate the business elite. The 8.4 million independent enterprises that were in operation in 1953 were reduced to 160,000 in 1956 (Pearson 1997:60). During this time, what was left of the business elite was organized into the All-China Federation of Industry and Commerce (ACFIC). This was not a forum through which the business class could exert independent power but a vehicle for the CCP to mobilize the talents of the business elite for state goals as well as a medium for transmitting information about government policies to business representatives (Pearson 1997:59). Facilitating business and commerce was not a goal of the state during this period, the ACFIC was a way for the state to keep all the business elite in one place and further control them.

During the Cultural Revolution (1966-76), Mao Zedong sought to return China to the "pure" ideals of Communism. This was not good news for capitalist-oriented business people. Many were given "black" labels and banned from becoming CCP members (Bian et al. 2001:811).<sup>2</sup> In this one-party system, not belonging to the CCP meant little to no chance at political office or

any type of political power, especially considering the heightened zeal of the Cultural Revolution. Formal education was not rewarded nor emphasized for career promotion.

From 1957 to 1965, the number of private enterprises in China rose from 160,000 to about 1 million, but with the onset of the Cultural Revolution, the number plunged (Pearson 1997:60). Also during this period, the CCP continued to control business through ACFIC, perhaps to an even greater degree (Pearson 1997:59). While the early years (1949-65) do not reflect any incorporation of the business elite, the virtual debilitation of the group after 1966 insured that they were not a power contender and certainly not a threat to the state.

Reform in China began in 1978, shortly after Mao's death and continued until 1989. The relatively slow privatization<sup>3</sup> of China's State-Owned Enterprises (SOEs) was an important move by the CCP. Property rights were left ambiguous for over a decade after beginning of reform. This was probably wise, because a quick and total privatization most likely would have led to a complete disintegration of the economy (Keister 2000:84). As it were, the slow privatization opened many opportunities for new enterprises backed by foreign or domestic investment. Indeed, such ventures were encouraged.

As a result of the reversal of party goals from class struggle to economic development, the party was in need of individuals with business skills. Until 1978, the CCP had focused on class origin as a requirement for party membership; even education was deemphasized. Now, the opposite occurred. Class origin became irrelevant, and although formal education was still not highly important, experience and expertise in the business arena were (Bian et al. 2001:812). The CCP began recruiting entrepreneurs and skilled business managers—the old “enemies” of the regime—into the party (Dickson 2003:93).

In this favorable climate, a business elite began to emerge, achieving wealth, education, and prestige. These very attributes distinguished this new elite as a potential threat to state power if not sufficiently incorporated and invested in the CCP. Pearson identifies foreign-sector managers (native Chinese hired to run foreign-backed businesses) and private entrepreneurs as the most dangerous groups, because they are the most removed from the state, the least reliant upon it, and so the most likely to want to change the system of government (1997:6).

From 1978 to 1986, the state began to encourage the formation and development of groups similar to Japanese *keiretsu*.<sup>4</sup> These horizontal links between enterprises were encouraged to foster economic growth. The state required that groups register with the government bureau with which they were most closely associated (Keister 2000:66-68). At the same time, ACFIC was restructured. It was divided into 150 voluntary “guilds” making it more friendly, accessible, and useful to the business elite. Unlike the Maoist ACFIC, these groups offered businesses ways to achieve their own goals. Not surprisingly, these goals correlated with the state's desire for economic growth.

Such encouragement of business would have been dangerous if steps had not been taken to incorporate the business elite into the state. In the mid-1980's business groups began to describe themselves as *minjian*<sup>5</sup> meaning “non-governmental,” which suggested autonomy from the state (Pearson 1997:119). While these “interest groups” are not analogous to similarly named groups in the West, their formation reflects a liberalization of the economy as a result of marketization.

Wisely, the CCP co-opted the business elite into its ranks. Their skills were needed, and businesspersons recognized the opportunity for political influence. Even before 1989, the “black” labels of the Cultural Revolution were no longer an issue for businesspersons who wished to join the CCP. Some once-persecuted capitalists even began to hold official positions. By 1988, 15% of private firm owners were party members (Dickson 2003:98). The large numbers of entrepreneurs co-opted into the party, especially in the 1980s, marked a decline in Communist ideology as well as a demonstration of the government's commitment to a market economy. Yet the events of 1989 would mean a change in the climate for the business elite, especially private entrepreneurs.

Student protests at Tiananmen Square in 1989 seemed to breathe new life into CPP hardliners. Suddenly, opponents of economic reform had proof of what it meant to move into a market economy. Allegations<sup>6</sup> that some business entrepreneurs had openly supported the students meant that the group would be targeted by the CCP in the upcoming decade. This apparent alliance of the business elite with the student movement was just the excuse needed by hardliners to exclude the group from the party. Private entrepreneurs officially were barred from joining the CCP. Those already members could no longer hold official positions (Dickson 2003:98). These moves were dangerous to the party.

After Tiananmen, the *minjian* groups created in the 1980s also were restricted – required to register with the Social Organizations Department of the Ministry of Civil Affairs (Pearson 1997:121). These groups would have to prove that no other similar group had been registered, and then it would receive a monopoly<sup>7</sup> in its area. Naturally, the previously relatively autonomous groups began to itch for those same freedoms again. Moreover, the number of private enterprises fell from 90,581 to 76,581<sup>8</sup> as a result of the anti-capitalist sentiment that raged after the protests (Fewsmith 2001:172).

Still, official policy and reality are not always the same in China. One such instance is the ban on business entrepreneurs entering the party. While this was official policy, local bureaucrats found ways to circumvent it. By listing their enterprises as collective or joint-stock, for example, entrepreneurs were permitted to join. Sometimes, however, local officials would not even bother to register enterprises falsely; they would simply allow entrepreneurs to join (Dickson 2003:105). These officials recognized the importance of properly using the talents, skills, and connections of private entrepreneurs. Entrepreneurs joined the party in hopes of access to resources doled out by the state or for the political influence that they could exercise through the party. Some of the illegal admissions could also be attributed to connections (*guanxi*) developed between officials and businessmen.<sup>9</sup>

In 2000, the CCP announced a new set of state goals. The “three represents”<sup>10</sup> campaign coupled with the announcement that “the healthy development of the self-employed and privately-owned businesses... [will be] supported, encouraged, and guided” showed that the Party was getting ready to forgive and forget (Dickson 2003:102). Early that year, the central party school began to hold courses for entrepreneurs. Local party schools also had been offering such courses. Finally, on July 1, 2001, party leader Jiang Zemin suggested lifting the ban on entrepreneurs in the party in a speech honoring the 80<sup>th</sup> anniversary of the CCP.<sup>11</sup> The policy was immediately implemented and 100,000 entrepreneurs applied to the party in the following weeks (Dickson 2003:103-104). Jiang and supporters understood what the CCP was missing by excluding the talents of private entrepreneurs, freelance professionals, and scientific and technical personnel. In addition, as previously discussed, the ban had been ineffective.

The current role of the elite in Chinese public affairs shows how effective the incorporation of the elite has been. Consider their contributions to public welfare projects.<sup>12</sup> Eighty percent of entrepreneurs testified that they gave their contributions voluntarily and 86% said that they believed that this was a responsibility of private entrepreneurs (Dickson 2003:121). Through such activities, the business elite legitimize their wealth and prestige, a tradition dating to the Qing dynasty. Entrepreneurs use their donations to the community as a way to bolster their social standing and even further their political careers. In a study of 25 townships, 20 of them had private entrepreneurs running in village elections. Most (72.5%) of those running were party members (Dickson 2003:123). Were the state to exclude these politically active members from the party, a power struggle might arise. However, the data suggests that most entrepreneurs who wish to enter into the political arena choose to do so through the CCP.

Current literature suggests that the business elite are relying less upon *guanxi* and more upon rational and legal means to conduct business.<sup>13</sup> In Bruce J. Dickson’s survey of private entrepreneurs, 70.9% disagreed or strongly disagreed that the business relied mainly on *guanxi* (2003:127). Personal networks rely on key actors that may not always be available, people leaving and coming into the business world means that the actors are always changing,

individuals can make false claims about the extent of their *guanxi*, and such actions often are confused with bribery; all these reasons are credited with the declining use of *guanxi* (Wang 2001:167-171). The move away from personal networks reflects a greater reliance on legal or standardized means of doing business. For those unfamiliar with Chinese business practices, this creates a more inviting climate for foreign investment as well.

Furthermore, the business elite, even within the non-state sector, are a diverse group. Even natural allies, such as entrepreneurs and foreign-sector managers, rarely agree en masse. Indeed, two non-state elites appear to have irreconcilable differences. One consists of those whose education and talent have played a part in their acquisition of, or promotion to, their position. The other group is comprised of those who rely on party ties to obtain and sustain their positions. This is the "divided elite" of the non-state sector (Bian et al. 2001:834). The groups seem unlikely to band together because their interests are contradictory, and the latter group would be highly unlikely to oppose the mechanism through which they obtained their position.

The political beliefs of the business elite will help determine if, as a group, they become an agent for political change. As I mentioned earlier, some private entrepreneurs allegedly supported the Tiananmen protests morally or financially. This seemed to confirm the warnings of the enemies of marketization in the party. Yet after the punishment of private entrepreneurs, what are the new political views of the business elite? Dickson's study suggests that although marketization and liberalization of the economy are important issues to this group, entrepreneurs also highly value stability. In fact, they prefer to risk inflation for the sake of stability (Dickson 2003:133-135). Naturally, a stable political environment is more attractive to foreign investors and more predictable and rational for business in general. Indeed, stability remains so important to supposedly risk-taking entrepreneurs that they are unlikely to seek any drastic changes in government.

Many Chinese fear that a capitalist economy will encourage the development of a Western-style democratic political system (Fewsmith 2001:128-29). The actions of the business elite, however, do not reflect a desire for a democratic system. Rather, they prefer the stability of the status quo. Their voluntary donations to the community reflect a partnership with the state. Chinese entrepreneurs tend to believe that their success derived from their own talents. They believe that because they became rich through their own abilities, they should have more influence in politics (Dickson 2003:129). This attitude does not favor democratic trends. On the contrary, it implies that the poor do not deserve political power because they are not talented enough to become wealthy. With the business elite now being actively incorporated into the party, their anti-democratic political views are likely to be incorporated as well.

The presence of entrepreneurs in official positions<sup>14</sup> is especially noteworthy. It reflects the incorporation of the business elite into the CCP. Those who are the most politically ambitious are able to obtain the positions they seek. Their examples encourage other politically ambitious wealthy individuals to pursue party positions as well. As long as this trend continues, this group is unlikely to endorse calls for general democratization.

The business elite view their relationship with the CCP as symbiotic (Dickson 2003:106). These entrepreneurs, executives, and managers were co-opted into the party because they were needed. As the state changed its goals, it sought those with the talents, skills, experience and education to meet those goals. The business elite feel needed in the party, even though some old-style members resent their presence. Moreover, the benefits of being in the party, and consequently "in the system," are obvious. The government is the CCP, so any political influence has to be by way of the party. Any member of the business elite wishing to hold office must seek membership in the CCP.

The wealth, influence, and resources of the business elite make them a potentially dangerous group. Without access to political power, this group could threaten the existing regime. The CCP's policy from 1949 to 1976 was to suppress this group which represented the evils of capitalism. While this policy limited Chinese economic growth, it also obviated any need to incorporate this group by keeping it small, poor, and insignificant. The rapid economic

growth experienced by China during the 1980s, resulting mostly from foreign investment, created a new wealthy business class. This emergent elite sought political power through joining the CCP. The student protests in Tiananmen Square led to a renewed fervor to control the growing capitalist class in China. Private entrepreneurs were punished by being excluded from the party and from holding official positions. This ban, which proved ineffective, was lifted in 2001. This change in policy formally recognized the incorporation of the business elite in the CCP. The political views and actions of this group do not suggest a desire for a democratic system, but rather an eagerness to consolidate their political and economic power. As long as the state continues to allow the group to exercise political power in this way, the business elite will not be a cause of drastic political change.

## ENDNOTES

<sup>1</sup> The Wufan campaign literally meant “Five-Anti,” which targeted the “evil” activities of bribery, tax evasion, theft of government property, cheating on contracts, and the use of economic data for private benefit (see Pearson 1997:60). Because this was an attack on capitalists regardless of the honesty of their business activities, this may be looked upon as an attack on the cultural practice of *guanxi* (personal relationships or networks).

<sup>2</sup> Others given “black” labels during the Cultural Revolution were landlords, rich peasants, antirevolutionaries, and rightist intellectuals. “Red” labels denoted workers, poor peasants, and revolutionary cadres. See Bian et al. (2001:811).

<sup>3</sup> Privatization is defined by Andrew G. Walder as “the conversion of existing public assets into new, nonpublic forms of ownership. This is distinct from other processes that may enlarge the private sector, e.g., the formation of new private firms through domestic or foreign investment.” See Walder (2003) for a comparison of the different speeds of privatization in transitional Communist states.

<sup>4</sup> *Keiretsu* were immensely successful Japanese business groups. The government would give these groups tax incentives, protection from competition, and other accommodations in order to facilitate business growth. Significantly, *keiretsu* were formed after post-World War II American occupation made the former business groups (*zaibatsu*) illegal. See Keister (2002:65-66).

<sup>5</sup> While *minjian* is said to denote autonomy from the state, one would wonder if this “non-governmental” tag could also be a way for these groups to pacify suspicious old-style Communists or even simply to distinguish themselves from a politically active group that might threaten the CCP.

<sup>6</sup> One specific accusation was that entrepreneurs were funding intellectual publications. Clearly, the accusation was far from denied when Wan Runnan, head of the Stone Group, fled China due to his formerly outspoken support of the Tiananmen student demonstrations. See Dickson (2003:100).

<sup>7</sup> The reason that the state would give a monopoly to these groups in their particular area of service or production is that Communist ideals maintain that competition will not lead to growth. This is similar to the Japanese *keiretsu* system.

<sup>8</sup> 8,000 private enterprises ended their operations, 4,000 declared their status as “individual entrepreneurs,” and the remaining 2,000 are not accounted for. See Fewsmith (2001:172).

<sup>9</sup> *Guanxi* has been identified as an important aspect for the success of a foreign-sector company. The term refers to the personal connections between officials and businesspeople. The term is often used interchangeably, with “personal networks.” The three types of *guanxi* “providers” identified by Hongying Wang are unpaid friends of employees, hired middlemen chosen especially for their *guanxi*, and organizations such as consulting firms (2001:94-95).

<sup>10</sup> The “three represents” campaign claimed that the party represents the developmental needs of advanced social productive forces, the promotion of advanced culture, and the fundamental interests of the great majority of people. See Dickson (2003:102). This is an obvious shift away from the onetime focus on workers and peasants.

<sup>11</sup> Jiang also recommended ten provinces begin allowing entrepreneurs into the party experimentally. He chose Jilin, a province whose representative was one of the most outspoken against allowing entrepreneurs back into the party (see Dickson 2003:104).

<sup>12</sup> Dating back to the Qing dynasty, the contributions of merchant guilds to the *gong* (public) realm were made in order to legitimize their wealth in the community against anti-business Confucian sentiment. These guilds would fill the void left by the government in their local communities (see Pearson 1997:44-

52). The guilds would perform duties such as building canals and roads, firefighting, town planning, etc. (see Dickson 2003:118).

<sup>13</sup> See Guthrie (1995) for his study of personal interviews with businesspeople in China and his conclusions about the declining importance of *guanxi*.

<sup>14</sup> In Dickson's study, 11.3% of entrepreneurs had served in local people's conferences; 4.8% had served in local political consultative conferences. He compares these to similar figures found in a 1997 study of entrepreneurs (see Dickson 2003:122).

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