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State's Policies toward Private Entrepreneurs and the Emerging Social Class in China's Reform Era

中國 改革期 浮上하는 私營企業家 階層에 對한 國家의 政策과 含意

2012 年 8 月

서울大學校 國際大學院
國際通商專攻
李 柱 憲

State's Policies toward Private Entrepreneurs and the Emerging Social Class in China's Reform Era

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By

Ju Heon Lee

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指導敎授 李 永 燮

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Abstract

State's Policies toward Private Entrepreneurs and the Emerging Social Class in China's Reform Era

Ju Heon Lee

This study intends to answer the question, "Have Chinese private entrepreneurs emerged as the core social class having a shared identity in China's reform era?" This question is divided into three sub-questions: (1) How have private entrepreneurs emerged in China's reform era and what was the role of the state? (2) Do private entrepreneurs in China share a class identity, goals, and challenges? (3) What are the social and political implications behind the rise of private entrepreneurs?

Chinese private entrepreneurs have emerged in three paths. The "individual household entrepreneurs" (*getihu*) have grown into the private entrepreneurs since the early reform era. They have multiplied in the early-1990s through the CCP policy that privatizes the small and inefficient state-owned companies. Moreover, they emerged through venture companies in the intelligence technology sector that boomed in the mid-1990s. This process of emergence could have enabled them to establish special relationships with the party state. As a class, they formed the "state-corporatist relationship" with the state with the state's strategy co-opting and controlling the emerging entrepreneurs. As individuals, they formed the "clientelist relationships" with local governments that characterized them by diverse symbiotic networks. Through these relationships, they became "embedded" in the party state and included in the elite group.

Although composed of diverse groups characterized by different occupational backgrounds, size of businesses, as well as political networks and attitudes, the Chinese private entrepreneurs increasingly have a class identity that carries among themselves common goals and challenges as business owners in China. The sense of sameness and distinction has oriented the Chinese private entrepreneurs to observe class consciousness.

The Chinese private entrepreneurs are not a representative group of the Chinese middle class in terms of population, social position, and education level. They are small in number and are positioned upper level in the middle class. They are sometimes alienated by other groups in middle class due to their uncultured characteristics. Their being embedded in the party state renders them unlikely to become agents of democratization. However, their political attitude and actions can be the key in determining the future stability of the political regime. They possibly coalesce for their common interests such as more institutionalized regulations, more freed market, rule of law, and protection of private property. These provide some political implications in that private entrepreneurs can change their supportive attitude toward the CCP when it loses their source of legitimacy based on economic performance.

Keywords: Private Entrepreneurs, Corporatism, State-Corporatism, Clientelism, Patron-Clientelism, Chinese Middle Class, State-Society relations, a Class Identity, Chinese Social Stratification, Democratization

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Abbreviations

ACFIC	All-China Federation of Industry and Commerce, 工商联
CAA	China Audio Association, 中国音响协会
CASS	Chinese Academy of Social Science, 社会科学院
CCP	Chinese Communist Party，中国共产党
CPPCC	Chinese People's Political Consultative Conference 政治协商会议
CSA	China Software Alliance, 中国软件联盟
CTVEA	China Township and Village Enterprise Association, 乡镇企业协会
FOE	Foreign-Owned Enterprises， 外资企业
(L)PC	(Local) People's Congress, 人民代表大会
NPC	National People's Congress, 全国人民代表大会
MII	Ministry of Information Industry, 信息产业部
MOCA	Ministry of Civil Affairs, 民政部
MOF	Ministry of Finance, 财政部
PEA	Private Enterprises Association, 私营企业家协会
SAIC	State Administration for Industry and Commerce, 国家工商管理局
SELA	Self-Employed Laborers Association, 个体劳动者协会
SETC	State Economy Trade Committee, 国家经济贸易委员会
SOE	State-Owned Enterprise, 国营企业
STA	State Taxation Administration, 国家税务总局
TVE	Township and Village Enterprise, 乡镇企业

Chapter I

Introduction

Among the diverse socioeconomic changes that occurred in China since the onset of the "Reform and Opening" (*gaige kaifang*) in 1978, one of the most dynamic and profound changes is the reemergence of private entrepreneurs.[1] After being extinct by the nationalization policies and the ideological oppression in Mao Zedong's era, Chinese private entrepreneurs in the post-Mao era have emerged again and have grown fast and steady not only in number and size but also in their influences on Chinese society. Today, the importance of the private entrepreneurs in the context of Chinese society is as huge as the economic resources that they possess. In 2007, the private sector contributed 66 percent of Chinese GDP and 71 percent of tax revenues, creating millions of urban jobs, while employment in state-owned and collective enterprises has shrunk.[2] For this reason, the emergence of private entrepreneurs became the major research topics for social scientists outside of China. After the collapse of the Soviet Union, many social scientists have moved their attention to the social change in China and focused on the rise of capitalists under the dictatorship of the Chinese Communist Party (CCP). Various studies have anticipated the private entrepreneurs to be agents of political democratization.

[1] For a detailed argument of the reemergence of private entrepreneurs and associations, see Margaret M. Pearson, *China's New Business Elite: The Political Consequences of Economic Reform* (Berkeley, CA: University of California Press, 1997), pp. 44~64.
[2] Jie Chen and Bruce J. Dickson. *Allies of The State: China's Private Entrepreneurs and Democratic Change* (Cambridge, MA: Harvard University Press, 2010). pp. 1; 174.

Previous Studies and Questions

Academic approaches on the emerging economic elites, especially on the private entrepreneurs in China have been widely conducted since the mid-1990s. After the collapse of the Soviet Union in 1989, the eyes of the world had moved to China while the emergence of private entrepreneurs in Chinese society had been more than enough to initiate political change. By the mid-1990s, however, many studies had found that the rule of the Chinese Communist Party (CCP) had not been weakened while the emerging capitalists in the society failed to become the catalyst of change toward a more democratized society. This has intrigued scholars because traditional theories of social science predicted that the emerged private entrepreneurs should be coalesced and take the catalyst role of democratization. Even today, when more than 30 years have passed since the economic liberalization in the late-1970s, they still have not taken the role, as it is hardly expected in the near future.

According to Margaret M. Pearson, scholars in the 1970s and 1980s tried to understand the state-society relations in China through totalitarianism and pluralism. On the other hand, scholars in the 1990s tried to view Chinese society through three alternative models: democratization and civil society models; neo-traditionalism and clientelism; corporatism and east-Asian statism. However, she points out that each of the three models lack empirical evidence and therefore does not reflect the reality of China, but ignores the characteristics of a socialist country. Therefore, she argues that Chinese state-society relations should be understood by the "hybrid" model of corporatism and clientelism.[3]

[3] Margaret M. Pearson (1997), pp. 22~23.

David L. Wank also points out the limitations of three traditional accounts in the social science literature explaining economic reform in communist orders. In detail, the "market transition account," which views market emergence as a transition from a planned to a market economy, expects that the economy and polity of commercializing communist orders will move toward an ideal-type market and democracy. However, more than three decades have passed but China's polity and economy remain far from the ideal-type of market economy and democracy. The "political economy account," which sees the expansion of market linked to the decentralization of power within the state structure, views private entrepreneurs in China being more likely to cultivate access to officially brokered resources and depend on local officialdom. However, unofficial clientelist ties have survived and China's market still lacks the mature institutions that could enhance market expectations for utility-maximizing actors. The "traditional culture account," which views markets as embedded in traditional culture, ignores the institutional changes driven by interaction of central state with the local society and relies too much on the cooperative rather than the competitive factors in a culture.[4]

Bruce J. Dickson indicates that traditional literature has urged scholars to come up with overt expectations on the democratization in China.[5] Specifically, the studies of Richard Lowenthal and Ken Jowitt describe the process of "Leninist extinction" in which the goal of the Leninist regime moves from the utopian to the development-oriented policies, as the party system experiences transition from an exclusive to an inclusive

[4] David L. Wank, *Commodifying Communism: Business, Trust, and Politics in a Chinese City* (NY: Cambridge University Press, 1999). pp. 24-32.
[5] Bruce J. Dickson, *Red Capitalists in China: the party, private entrepreneurs, and prospects for political change*. (NY: Cambridge University Press, 2003); Bruce J. Dickson, *Wealth into Power: The Communist Party's Embrace of China's Private Sector* (NY: Cambridge University press, 2008).

orientation.[6] Modernization theory, which has been widely shared by many scholars, argues that marketization will promote economic development, leading to the formation of a civil society pushing political change.[7] In addition, the role of civil society has become a debate among scholars considering the dynamics of social change, especially political democratization.[8] The change of social structure has likewise fostered debates among scholars noting that industrialization promotes the emergence of a new social class that requires more autonomy from the political system.[9] Dickson argues that those theories are not insufficient to explain what actually transpires in Chinese society, while the prospects for democracy in China based on these traditional theories underestimates the adaptability and strategy of the Chinese Communist Party.

Finally, Kellee S. Tsai points out the two sources of democratic expectations. First, the "class-centric path to democratization," which views private entrepreneurs as a class, seeks greater access to the political system to protect its property rights and justify its contribution to state coffers. Second, the "elite-centric path to democratization," which focuses on the bargaining process, occurs between elite factions such as "hardliners and reformers" and "moderates and radicals."[10] This approach provides the different phases of transition toward democracy, as seen in conducted studies by Dankwart Rustow.

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[6] Richard Lowenthal, "Development versus Utopia in Communist Policy," in Chalmers Johnson (ed.), *Change in Communist Systems* (Stanford: Stanford University Press, 1970) p. 33-116.; Ken Jowitt, *Inclusion in New World Disorder: The Leninist Extinction* (Berkeley, CA: University of California Press, 1992), pp. 88-120.

[7] 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.

[8] Yanqi Tong, "State, Society, and Political Change in China and Hungary." Comparative Politics, Vol. 26, No.3 (Apr., 1994) pp. 333-353 ; Gordon White, Jude Howell, and Shang Xiaoyuan, *In Serch of Civil Society: Market Reform and Social Change in Contemporary Chin* (Oxford: Oxford University Press, 1996), p.7

[9] Barrington Moore*, Social origins of Dictatorship and Democracy: lord and peasant in the Making of the Modern World* (Boston: Beacon press, 1966), p. 418.

[10] O'Donnell, Guillermo and Philippe Schmitter. *Transitions from Authoritarian Rule: Tentative Conclusions about Uncertain Democracies* (Baltimore: Johns Hopkins University Press,1986)

However, Tsai argues that private entrepreneurs in China are a composition of diverse groups and are thus not regarded as a class sharing common interests and values.[11]

As seen through the literature, the traditional models and theories in social science have formed a 'myth' predicting an impending democratization by the rise of private entrepreneurs in China, which has not occurred for the last three decades. Then how should we see the state-society relations, more specifically, the relations between the state and private entrepreneurs?

Scholars of Chinese private entrepreneurs generally agree with two concepts in describing the relation between the state and private entrepreneurs: corporatism and clientelism. Since the 1970s, corporatism and clientelism have been given various definitions and applications.[12] When we apply these to Chinese society, some distinguish these two concepts very clearly,[13] while others like Margaret M. Pearson try to combine them,[14] or even see clientelism as a type of corporatism.[15] However, most scholars consider choosing a few characteristics of those two concepts deemed applicable to China, instead of strictly applying the definitions.[16] For example, Bruce J. Dickson refers to

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[11] Kellee S. Tsai, *Capitalism without Democracy: The Private Sector in Contemporary China* (Ithaca, NY: Cornel University Press, 2007), Ch. 2.

[12] Margaret M. Pearson(1997), p. 32-42.; Philippe C. Schmitter "Still the Centrury of Corporatism?" in Fredrick B. Pike and Thomas Stritch (eds.), *The New Corporatism* (London: University of Notre Dam Press, 1974), p. 93-98.; Schmidt, Steffen W., James C. Scott, Carl Lande, and Laura Guasti (eds.). *Friends, Followers, and Factions: A Reader in Political Clientelism.*(Berkeley, CA: University of California Press,1997)

[13] Scott Kennedy, *The Business of Lobbying in China* (Cambridge, MA: Harvard University Press, 2005)

[14] "The Hybrid of socialist corporatism and clientelism" in Margaret M. Pearson (1997).

[15] Chin-Chuan Lee, Zhou He and Yu Huang, "Party-Market Corporatism, Clientelism, and Media in Shanghai," *The Harvard International Journal of Press/Politics*, Vol. 12, No. 3 (Summer 2007), pp. 21~42

[16] For diverse terms that describe Chinese corporatist state-society relations, see Mary E. Gallagher, "China: The Limits of Civil Society in a Late Leninist State," in Muthiah Alagappa(ed.), *Civil Society and Political Change in Asia: Expanding and Contracting Democratic Space* (Stanford: Stanford University Press, 2004), p.420.

Chinese corporatism as "crony communism,"[17] while Margaret M. Pearson calls it "socialist corporatism." Based on the corporatist perspective, these terms describe the "embedded autonomy" of private entrepreneurs, and together with their cooperative rather than competitive relationship with the state.[18] David L. Wank calls Chinese clientelism as "commercial clientelism" and "symbiotic transactions," while Andrew Walder has used the term "institutionalization of clientelist network" to define "guanxi" in China. These terms are based on the clientelist perspective on Chinese state-society relations, characterized by the unofficial (sometimes illegal) reciprocity and mutual symbiotic transaction in China.[19]

Recent studies have expanded the coverage of research and leading to many cases that seem to go beyond the boundaries of corporatism and clientelism. For example, Scott Kennedy focuses on the business lobbying cases and argues that an increase in these "official" behaviors has propelled the policy-making process and brought significant influence to the traditional, yet unofficial and illegal behaviors. He describes diverse behaviors that influence policy making process at each level of the state.[20] Similarly, Kellee S. Tsai explains the "adaptive informal institutions" which describe how diverse and informal strategies of private entrepreneurs gradually affect the formal institution of the each level of the state.[21] However, these cases do not deny corporatism and clientelism as core perspectives to understand China's state-society relationship. As discussed earlier, most studies have not directly employed the traditional definition of

[17] Bruce J. Dickson, "China's Cooperative Capitalists: The business End of the Middle Class," in Cheng Li (ed.), *China's Emerging middle Class: Beyond Economnic Transformation* (Washington, D.C.: Brookings institution Press, 2010a), p. 296.
[18] Peter Evans, *Embedded autonomy: states and industrial transformation.* (Princeton: Princeton University Press, 1995).
[19] David L. Wank (1999), p. 42~149; Andrew G. Walder, *Communist neo-traditionalism: work and authority in Chinese industry,* (Berkeley, CA: University of California Press, 1986), pp.170-85.
[20] Scott Kennedy (2005), pp. 160~186.
[21] Kellee S. Tsai (2010), pp. 36~42.

corporatism and clientelism. The studies of Kennedy and Tsai support and supplement previous studies.

Studies that employ the corporatist perspective and clientelist perspective do not have a huge gap in viewing the relationship between the party-state and the private entrepreneurs in China. However, the former focuses more on private entrepreneurs as a group or a class, and its collective attitude and relationship with the central government and central party, The latter focuses on private entrepreneurs as individuals seeking special relationship with local governments and cadres of local party organizations. Bruce J. Dickson and Jie Chen's study, for instance, employs the perspective of state-corporatiism, and admits the diversity of private entrepreneurs, and focused more on the private entrepreneurs' attitudes toward democracy. Their study deals with factors affecting attitudes and values, not the detailed situations and environments that each private entrepreneur encounters. On the contrary, the studies of David L. Wank and Kellee S. Tsai focus more on the diverse situations and environments of private entrepreneurs. They assume that private entrepreneurs are not a single actor pursuing common interests. They focus on diverse, informal, and reciprocal behaviors that eventually bring changes to state policies. Even local governments that share special relations with entrepreneurs sometimes confront the central policies.

In light of studies, this study tries to bridge between two perspectives and provides a more comprehensive view by connecting with social class discourse. An assumption is postulated that the special and cozy relationships between the state private entrepreneurs and the diverse situations of private entrepreneurs cannot have hindered the formation of a class and a shared identity. This study tries to clarify the detailed paths of emergence of private entrepreneurs, as well as the relationship between the state and private entrepreneurs, their common identity as a social class, and the political implications from their emergence as a social class. These factors lead to the main

question of this study: “Have Chinese private entrepreneurs emerged as the core social class having a shared identity in China’s reform era?”

Answering this question provides some implications useful for further studies. If Chinese private entrepreneurs do not share a common identity, we may have to scale down the scope by focusing on a smaller group, or by expanding the scope to present them as the middle class. On the contrary, if Chinese private entrepreneurs have or increasingly have a class identity, they can possibly coalesce for their common interests when they feel their interests are not fully protected. This scenario similarly offers also gives a great political and social implication to the Chinese society.

Précis of the study

This study attempts to answer the research question, “Have Chinese private entrepreneurs emerged as the core social class having a shared identity in China’s reform era?” To provide answers effectively and sufficiently, the question has been divided into three sub-questions.

1. “How have private entrepreneurs emerged in China’s reform era and what was the role of the state in the process?” Chapter II and III provide the answer to this question. Chapter II discusses the background concerning the emergence of private entrepreneurs, while Chapter III deals with the role of CCP and the government from the perspective of corporatism and clientelism.

2. “Do private entrepreneurs in China have a shared identity, and do they share collective goals and challenges?” Chapter IV answers this question by comparing diverse compositions of private entrepreneurs and their common characteristics.

3. “What are the social and political implications of emerging private entrepreneurs?” Chapter V deals with the social class in Chinese society and attempts to discover the position of private entrepreneurs in China’s middle class. The chapter also discusses the implications of the emergence of private entrepreneurs from the viewpoint of political democratization.

Regarding the three questions, this study argues as follows. Chinese private entrepreneurs have emerged in three paths. The “individual household entrepreneurs” (*getihu*) have grown into the private entrepreneurs since the early reform era. They have multiplied in the early-1990s through the CCP policy that privatizes the small and inefficient state-owned companies. Moreover, they emerged through venture companies in the intelligence technology sector that boomed in the mid-1990s. This process of emergence could have enabled them to establish special relationships with the party state. As a class, they formed the “state-corporatist relationship” with the state with the state’s strategy co-opting and controlling the emerging entrepreneurs. As individuals, they formed the “clientelist relationships” with local governments that characterized them by diverse symbiotic networks. Through these relationships, they became “embedded” in the party state and included in the elite group.

Although composed of diverse groups characterized by different occupational backgrounds, size of businesses, as well as political networks and attitudes, the Chinese private entrepreneurs increasingly have a class identity that carries among themselves common goals and challenges as business owners in China. The sense of sameness and distinction has oriented the Chinese private entrepreneurs to observe class consciousness.

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being embedded in the party state renders them unlikely to become agents of democratization. However, their political attitude and actions can be the key in determining the future stability of the political regime. They possibly coalesce their common interests as more institutionalized regulations, more freed market, rule of law, and protection of private property. These provide some political implications in that private entrepreneurs can change their supportive attitude toward the CCP when it loses their source of legitimacy based on economic performance.

This study has analyzed literature, reports on the state-society relations, private entrepreneurs, business elites, social stratification, and the middle class, published in three languages: English, Chinese, and Korean. Debates on Chinese social class in this study primarily refer to the publishing of the Chinese Social Science Institute (CSSI). Statistical data and news reports have been accessed through online sources.

Chapter II

The Birth of Private Entrepreneurs in the Reform Era

Mao Zedong implemented a socialist transformation program until 1956 to establish the socialist relations of production. Through the "socialist transformation of agriculture, handicraft industry, and the capitalist industry and commerce" (*shehui zhuyi sanda gaizao*), all private industrial and commercial firms were nationalized. By the early 1960s, companies that had been reorganized as "joint private-state enterprises" (*gongsi heying*) and former private owners remained in managerial roles while receiving 5 percent of fixed interests (*dingxi*) on what the government had calculated to be their

remaining share of capital, had ceased to exist in China.[22] After the socialist transformation, China's economic structure has been classified into only two types of ownership: 59 percent of "ownership by the whole people" (*quanmin suoyouzhi*) and 41 percent of "collective ownership" (*jiti suoyouzhi*).[23]

After the "Third Plenum of Eleventh Central Committee of the Chinese Communist Party" (*shi yi jie sanzhong quanhui*) had decided to recover from the devastation of the Cultural Revolution, and to concentrate its efforts on socialist modernization, new types of non-public ownership started to emerge again in Chinese society. These new types of non-public ownership are "individual household enterprises" (*getihu*), "private enterprises" (*siying qiye*), "foreign-owned enterprises" (*waizi qiye*), and some "township and village enterprises (*xiangzhen qiye*) operated by shareholding managers. Among the non-public economy, individual household enterprises and private enterprises share significant values in ways that prospered them without waiting for their economic activities to be sanctioned.[24] They maximized the use of what was not explicitly prohibited. The change in CCP's attitude toward the entrepreneurs sanctioned what already transpired at the local level. This chapter now explores the contributing factors that had promoted the rise and the growth of this private economy. This chapter suggests three paths that led to the rapid increase of private entrepreneurs in the early reform period. First, private entrepreneurs were recognized and sanctioned by the party state after individual household entrepreneurs prospered and evolved into large firms. Second, the sellout of state-owned enterprises (SOEs) and privatization of township and

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[22] Maurice Meisner. *Mao's China and after: a history of the People's Republic* (New York, NY: The Free Press, 1999), p. 85.
[23] Suh, Suk Heung. "A Research on Chinese Private Entrepreneurs after 1979" (*1979 nyeon yihu eui jung-guk sa-young gi-eop e guan-han yeon-gu*), PhD dissertation (Seoul: Seoul National Univeristy, 1994).
[24] Foreign-owned entrepreneurs were protected by the central government even when private entrepreneurs were suppressed for being spiritually polluted. See Margeret M. Pearson (1997), p. 114.

village enterprises (TVEs) contributed to the emergence of private entrepreneurs in the mid-1980s. Third, as the Chinese economy opened and reformed in the early 1990s, venture business in the IT sector had boomed as highly educated engineers in the venture companies became private entrepreneurs. Lu Xueyi identifies these three paths as the "capitalization of private income" (*siren shouru zibenhua*), the "privatization of public-owned enterprises" (*gongyou qiye sirenhua*), and the "commercialization of human capital" (*renli ziben qiyehua*).[25]

The Growth of Individual Household Economy

Since the late-1970s, individual household entrepreneurs who employed less than eight persons have flourished. The term "private enterprise" indicates the firms larger than the individual household enterprise, and the two are not different by nature except by Chinese law. Their different legal status is based on Marx's assumption of capitalist exploitation, as stated in his book "*Das Kapital*." According to Marx, capitalists start to exploit their employees when the number of employees exceeds eight. Therefore, private businesses had been tolerated as long as they had less than eight employees until 1988. Later, enterprises were formally registered as *siying qiye* when their sizes became big enough to hire more than eight persons.[26]

Individual household entrepreneurs started to prosper since the early period of reform. They included unemployed young people who returned from being "sent down"

[25] Lu Xueyi (2002), pp. 211-212.

[26] Marx calculated that if the rate of surplus-value amounts to 50%, a capitalist has to employ two laborers in order to live no better than a laborer. And if he may live only twice as well as an ordinary laborer, and besides turn half of the surplus-value produced into capital, he would have to raise the minimum of the capital advanced eight times. This calculation is based on Marx's assumption of surplus-value (50%), but the CCP had accepted it literally. See Karl Marx. *Capital: A Critique of Political Economy, Vol I. The process of Capitalist Production* (1906). trans. Samuel Mooer and Ard Averling. New York, N.Y.: International Publishers, 1983. p. 308.

(*xiafang*) to the underdeveloped areas of China during the Cultural Revolution. During the time, the rural surplus labor force after the dissolution of People's Commune and retired people in urban areas started to open small businesses. They earned money while purchasing products in Guangdong and selling them in the cities located in inner areas. In rural areas, "specialized households" (*zhuanyehu*) engaging in specialized works such as silkworm raising, hog farming, and fish-farming arose between 1979 and 1983. Since 1984, many TVEs became privatized when the Chinese government had implemented the "rural household contract responsibility system" (*lianchan chengbao zerenzhi*).

As the private economy in China grew faster, some individual household entrepreneurs accumulated capital that made them rich. As their business became larger, they needed to employ more laborers. According to a report by the Chinese Academy of Social Sciences (CASS), private companies that hired more than eight employees have been observed since 1980. Allegedly, the first private entrepreneur in China was Chen Zhixiong who was a fish-farmer in Guangdong Province.[27] He hired five full-time laborers and six to seven temporary laborers to earn 60 thousand Yuan annually. He paid 40 thousand Yuan to the People's Commune and took 20 thousand Yuan for his personal income. This business practice became a debatable issue in the People's Daily (*renmin ribao*).[28]

As a consequence, "big employers" (*gugong dahu*) was tacitly accepted and tolerated by the post-Mao leaders who just assumed the tasks of economic recovery while pushing down the unemployment rate after the devastation of the Cultural Revolution. In 1988, these "*gugong dahu*s" finally acquired a legal status as "private entrepreneurs." Statistical data says that by 1989, the average employees of each private entrepreneur

[27] Lu Xueyi. *Contemporary Chinese Social Class Research Report* (*dangdai zhongguo shehui jieceng yanjiu baogao*). (Beijing: Social Science Academic Press, 2002).
[28] People's Daily (*renmin ribao*) 29 May 1981.

were already over 16 people. Table 1.1 indicates the growth of individual entrepreneurs, private entrepreneurs, and TVEs in the early reform period. The growth has been explosive and continuous except the period of *Tiananmen* incident and its recovery between the late 1980s and the early 1990s.

Table 2.1 Growth of Individual Household, Private Enterprises and TVEs

Year	Individual household enterprise	Private enterprise	TVE
1978	300,000		
1979	560,000		
1980	897,000		
1981	1,827,752		
1982	2,614,006		
1983	5,901,032		
1984	9,329,464		3,295,900
1985	11,712,560		9,253,500
1986	12,111,560		12,332,000
1987	13,725,746		14,730,700
1988	14,526,931		16,091,700
1989	12,471,937	90,581	16,081,200
1990	13,281,974	98,141	16,071,700
1991	14,145,000	108,000	16,788,500
1992	15,339,200	139,600	18,487,200

Source: Young, Susan. *Private Business and Economic Reform in China* (Armonk, NY: M.E. Sharpe, 1995), p.6; Kellee Tsai (2007) p.55.

Privatization of TVEs and SOE Reform

The second path that had led to the rapid increase of private entrepreneurs was the privatization of TVEs in rural areas, as well as the reform and restructuring of big state-owned enterprises (SOEs) in urban areas. In 1984, the "commune and brigades enterprises" (*shedui qiye*) were renamed as "*xiangzhen qiye*" (TVEs), as they started to

develop into a form of private enterprises. TVEs adopted the "contract responsibility system" in which villagers made "production responsibility contracts" (*chengbao hetong*) with company managers. In the system, a manager took the helm of a company by paying the public share (tax) and the share of collective (contracted amount) and by taking the rest.[29] Later, this system developed into a "lease system" (*zulin zhi*) in which an experienced manager assumed the company CEO with only paying the lease to the community. These kinds of leased companies were eventually owned by the managers after an ongoing depreciation of public assets and re-investment of the manager's own assets over time. According to a report of CASS, 80 percent of TVEs that were created in the rural area since 1984 were not public-owned enterprises and had many characteristics of private enterprises. [30]

As the reform program spread from rural areas to urban cities, many cities implemented large-scale restructuring of SOEs. The third plenum of the twelfth Central Committee of the CCP issued the "Decision of Central Committee of the CCP on Reform of Economic Structure" (*zhonggong zhongyang guanyu jingji tizhi gaigede jueding*). This introduced restructuring programs such as delegation of authority, the production responsibility system, regulation of distorted price system, and adopting new tax system (*ligaishui*). To enhance the efficiency in operation of SOEs, the CCP even accepted the characteristics of private ownership such as joint-equity enterprises, bankruptcy law. The CCP also leased or sold out small-sized SOEs and inefficient collective enterprises.

These reforms and restructuring programs were reinforced after the Deng's "Southern Touring Talk" (*nanxun jianghua*). After the *nanxun jianghua* the state council (*guowuyuan*) reportedly abolished 400 documents that regulated the activity of

[29] "One leg kicking" (*yijiaoti*) rule. See Lu Xueyi (2002), p. 211.
[30]Lu Xueyi, *Contemporary Chinese Social Class Change* (*dangdai zhongguo shehui liudong*) (Beijing: Social Science Academic Press, 2004), pp.242~243.

enterprises, and consequently, private enterprises increased very rapidly in that period. This was followed by the wave of resignation among cadres and intellectuals, and managers of SOEs. They discarded the "iron bowl" (*tiefanwan*) and "plunged into the sea" (*xiahai*) becoming private entrepreneurs. Among the *xiahai* entrepreneurs, some voluntarily became private entrepreneurs in pursuit of wealth, while others had been recommended, even forced by the state in the process of reform and restructuring. Managers in small and inefficient enterprises were main targets of the recommended resignation since the implementations of the strong restructuring program, "*zhauda fangxiao*" (seize the big and free the small) at the fifteenth Party Congress in 1997.

Table 2.2 indicates that individual entrepreneurs and farmers were major sources of private entrepreneurs before 1988. However, the portion of farmers became smaller as cadres and managers increased rapidly after 1992. This implies that the number of *xiahai* entrepreneurs skyrocketed after the *nanxun jianghua* that year. The next section discusses the increasing number of professionals.

Table 2.2 Career Background of Private Entrepreneurs

Career Background	Before 1988	1989~1992	After 1992	Sum
Professionals	1.9	4.3	4.9	4.6
Cadres and Managers	19.8	16.0	25.5	23.5
Laborers, Service Laborers	13.2	8.6	10.8	10.7
Farmers	20.8	17.9	15.8	16.7
Individual Entrepreneurs	35.8	46.3	36.9	38.2
Unemployed	8.5	6.8	6.1	6.5

Source: Li Peilin, Li Qiang, Sun Liping. *China's Social Stratification* (*zhongguo shehui fencing*) (Beijing: Social Science Academic Press, 2004), p. 319

The Surge of IT industry in 1990s

A study of CASS estimates that the sales and taxes of science technology-related enterprises have increased respectively 88.4 percent and 93.2 percent between 1992 and 1998. These are far higher than those of other private enterprises. College graduates and IT engineers opened venture businesses in this period, when IT boom prevailed all over the world. These venture companies had increased rapidly around *Zhongguancun* area in Beijing where IT companies were concentrated. Lu Xueyi introduces the four characteristics of these *Zhongguancun* venture companies: "self-financing" (*zichou zijin*), "voluntarily coalescing" (*ziyuan zuhe*), "self-managing" (*zizhu jingying*), and "responsible for their own profits and losses" (*zifu yingkui*).[31] CEOs of these companies are highly interested in the market demand, and their growth is based on high-level technologies and creative ideas, they are not managed by the dictatorship of a board of directors. However, the growth of these companies is primarily attributed to the change of industry structure and the surge of worldwide IT demand.

As this chapter discusses, Chinese private entrepreneurs emerged and prospered through three paths shown in different historical backgrounds; however, they have produced private entrepreneurs simultaneously since the early to mid-1990s. For example, not only the retired managers and cadres but also individual entrepreneurs invested in IT venture companies in the mid-1990s. These developments transpired together with the enhanced business environment after Deng's Southern Touring Talk and the deepening of the reform. Table 2.3 shows us that the surge of private entrepreneurs occurred in early to mid-1990s.

In the 1990s, SOEs and collective enterprises increased by -2.06 percent and -7.78 percent, respectively, while individual enterprise, foreign-owned enterprise, and

[31]Lu Xueyi (2002), pp. 211~212.

private enterprise increased by 12.84 percent, 28.07 percent, and 31.67 percent, respectively. By 2000s, the size of private economy occupied more than half of the gross domestic production of China.

Table 2.3 Development of Private Enterprise

Year	Number	Growth (%)	Employee (10 thousand)	Growth (%)	Registered capital (100 Million Yuan)	Growth (%)
1989	90581		164		84	
1990	98141	8.3	170	3.7	95	13.1
1991	107843	9.9	184	8.2	123	29.5
1992	139633	29.5	232	26.1	221	79.7
1993	237919	70.4	373	60.8	681	208.1
1994	432240	81.7	648	73.7	1448	112.6
1995	654531	51.4	956	47.5	2622	81.1
1996	819252	25.2	1171	22.5	3752	43.1
1997	960726	17.3	1349	15.2	5140	37.0
1998	1200978	25.0	1709	26.7	7189	36.9
1999	1508857	25.6	2021	18.3	10287	43.1
2000	1761769	16.8	2392	18.4	13308	29.4
2001	2028548	15.1	2714	13.4	18212	36.9
2002	2435282	20.1	3409	25.6	24756	36.9
2003	3005524	23.4	4299	26.1	35305	42.6
2004	3650670	21.5	5017	16.7	47936	35.8
2005	4300916	17.8	5824	16.1	61331	27.9
2006	4980774	15.8	6586	13.1	76028	23.5
2007	5513218	10.7	7253	10.1	93873	23.5
2008.06	6238702	10.3	7697	6.12	107504	14.5

Source: 2008 the 8th National Private Enterprise Sample Survey Data Analysis and Comprehensive Report. (2008 *di ba ci quanguo saying qiye chouyang diaocha shuju fenxi ji zonghe baogao*).

Chapter III

Changing Policies of the State and the Relationship between the State and Private Entrepreneurs

This chapter explores the state policies toward private entrepreneurs and the reactions of the private entrepreneurs to the state policies. By doing so, we discover that the current relationship between the state and private entrepreneurs and how the relationship has evolved and is evolving. The first section of this chapter briefly discusses the history of changing attitudes and policies of the party state toward private entrepreneurs. The second section discusses that the state's "corporatist strategy" and the increasing autonomy of business associations, and describes the state-corporatism in the Chinese social context. The final section of this chapter introduces the diverse coping strategies of private entrepreneurs observed by scholars in many local areas as well as the "clientelist ties" and the increasing official relationships beyond the clientelist ties.

Changing Policies toward Private Entrepreneurs

1978-1986: to Wait and See (kan yi kan)

Before legalization of private entrepreneurs, the CCP officially sanctioned the individual household economy that prospered in the early reform period and decreased the unemployment rate in the urban and rural areas. After the decision on the "reform and opening" at the third plenum of eleventh Central Committee of the CCP, speeches and documents made and sent by party leadership were followed to support the decision. In

September 1979, Ye Jianying, the Chairman of the National People's Congress Standing Committee delivered a speech on the 30th anniversary of the CCP stating that the "individual household economy that exists under the guidance of party is a necessary supplement to the socialist economy." [32] In August 1980, the minute of National Labor Employment Work Meeting (*quanguo laodong jiuye gongzuo huiyi*) said "individual economy within the boundary of law is a necessary supplement to the socialist economy, and is not exploiting human labor. Moreover, it will play a positive role for a long time." In December 1982, the Chinese Constitution was revised to state in Article 11 that "The state protects the lawful rights and interests of the individual economy," and that "individual economy is a complement to the socialist public economy." More importantly, it asserted, "the state guides, helps and supervises the individual economy by exercising administrative control."

The tolerant and supportive attitude of CCP had promoted the growth of individual household entrepreneurs. At the same time the dissolution of the People's Commune (*renmin gongshe*) and the expansion of "household contract responsibility system" (*jiating lianchan chengbao zerenzhi*) allowed some competitive entrepreneurs to accumulate wealth. However, most business undertakings during this period were still extremely small and mobile with little capital. They included street-side fruit stands, shoe repair services, and improvised taxis.

The central support continued to tolerate the large employment. Some individual household entrepreneurs could expand their business and hire more laborers other than their family members. As debates on the "big employers" (*gugong dahu*) become strong, the CCP issued in 1983 the central document no.1 stating that "the government permits rural households to hire temporary laborers, seasonal workers, apprentices, skilled

[32] See Ye Jianying's "a speech on the 30th anniversary of the CCP" (zai qingzhu zhonghua renmin gongheguo chengli sanshi zhounian dahuishang de jianghua).

workers." In 1984, central document no.1 stated that "An individual entrepreneur who hired more than regulated number of laborer should not be regarded as capitalist employer if the enterprise has the characteristics of collective economy: returning a part of after-tax profits to public assets, having limitations on the amount of dividends and income of CEO, and giving a part of income to laborers." The "regulated number" in the document generally meant no more than seven persons including one or two assistants and three to five apprentices.

The CCP allowed diverse forms of ownership of TVEs in the rural area. Central document no.4 entitled "Report on the New Phase of Opening the Commune and Brigade Enterprise" (*guanyu kaichuang shedui qiye xin jumian de baogao de tongzhi*) was issued in 1984. It stipulated that "commune and brigade enterprise" (*shedui qiye*) would be changed to "TVEs" (*xiangzhen qiye*), and officially recognizing diverse ownership were important parts of agricultural production, including cooperative enterprises owned by a group of farmers.

The attitude of the CCP leadership toward the individual household economy in this period was to "wait and see" (*kan yi kan*). In October 1984, when Deng Xiaoping was reported at the third plenum of Central Advisory Commission (CAC, *zhongyang guwen weiyuanhui*) on the enterprise "*shazi guazi*" which had expanded business in *Wuhu* of *Anhui* Province, he mentioned "solving the problem can disturb the heart of people, which is not helping."[33] This was described as "no crackdown, no encouraging" (*bu guli bu daji*) by other cadres. In October the third plenum of twelfth central committee of the CCP reported the "Decision of Politburo on the Economic System

[33] The CCP Central Literature Editing Committee (*zhonggong zhongyang wenxian bianji weiyuanhui*), *Selected Works of Deng Xiaoping* (*dengxiaoping wenxuan*) (Beijing：People's Publishing House, 1993), Vol III, p.91.

Reform" (*zhonggong zhongyang guanyu jingji tizhi gaige de jueding*) stating "China's socialist economy is the planned commodity economy based on public ownership."

Despite these somewhat encouraging rhetorical developments, throughout the 1980s private businesspeople were still vulnerable to various policy changes and political campaigns. These included economic "rectification" campaigns against smuggling and profiteering in the early 1980s, the "anti-spiritual pollution" campaign of 1983-84, a campaign against "suitcase companies" (*pibao gongsi*) that existed on paper but lacked assets in 1985-86, and the "anti-bourgeois liberalization" campaign of 1987.[34] Many conservative cadres were still prejudiced against the capitalists and added limitations to their business activities such as supplies, land, buildings, and access to utilities. Therefore a government document emphasized the "equal treatment" (*yishi tongren*) between SOEs and individual enterprises.[35]

Without a legal protection, the political rhetoric and tacit supports were insufficient to encourage and promote the growth of this private economy. Even in Wenzhou, where private economy had developed faster than any other area in China, entrepreneurs with the memory of the Cultural Revolution had so-called "millionaire phobia" (*baiwan fuwong kongbuzheng*), disguised their enterprises as collective enterprises (*dai hongmaozi*), and tried to solve their problems by means of illegal and unofficial measures.

[34] Teresa Wright 2010, Accepting Authoritarianism: state-society relations in China's Reform Era, Stanford university Press California. p. 40.
[35] A Document of Politburo and State Council, "Policy on promoting rural economy" (*guanyu jinyibu huoyue nongcun jingji de shixiang zhengce*), issued on 1 January 1885.

1987-1988: Legalization and Encouragement

In January 1987, central document no.5 stated that "private enterprises that hired more than the limited employees will be recognized their existence and the CCP will reinforce control and guidance gradually by encouraging the bright side and discouraging the dark side of the enterprises."[36] In April 1988 the State Council approved an amendment to Article 11 of the constitution that articulated a more favorable official stance toward private business including the land use rights. The revised Article asserted that "the State encourages, supports and guided the development of the non-public sectors of the economy. The State Council officially legitimated in June the existence of the private enterprise in three documents, entitled the "Provisional Regulations on Private Enterprises" (*siying qiye zanxing tiaoli*), "Provisional Regulations on Income Tax of Private Enterprises" (*siyingqiye suodeshui zaxingtiaoli*), and "State Council Regulations on the Taxation of Private Entrepreneur Investors (*guanyu saying qiye touzizhe de geren shouru tiaojieshui zhengshou de guowuyuan guiding*).

The legalization had the "disguised" private entrepreneurs "take off the red hat" (*zhaimao*) and reregister as private entrepreneurs. However, due to the hyperinflation, government budget deficit and widespread corruption, Chinese government soon had to announce a policy of "rectification and retrenchment" (*zhili zhengdun*), and the status of private entrepreneurs was thrown into question.

1989-1991: "Improvement and Rectification" (zhili zhengdun)

Economic overheating occurred in 1988 resulted in hyper-inflation. Commodity price had surged 18.5%, followed by bank runs and hoardings all across China. In

[36] Central Documents entitled, "To deepen the rural reforms" (*ba nongcun gaige yinxiang shenru*) issued on 22 January 1987.

September 1988 the third plenum of 13th Central Committee of the CCP decided that for two years (1989~1990) the CCP would concentrate all its efforts to the "improvement of economic environment" (zhili) and "rectification of the order" (*zhengdun*), and deepening the comprehensive reform. The CCP focused on the repression of economic overheating and stabilize the product circulation order in this period.

The CCP ceased the rhetorical and political supports toward private entrepreneurs blaming them for supporting the *Tiananmen* incident which happened in June 1989, creating great social disparity and contributing discontent among the public. Zhao Ziyang was purged, while many *getihu* and private enterprises were forced to close. The control over illegal behaviors such as tax evasion, disguising registration and producing unlawful products had been reinforced, and the socialist spiritual education had been intensified.

The most noticeable symbol of the backlash against reform was the decision in August 1989 to ban the recruitment of capitalists into the CCP. The central document no. 9 entitled, "Notice on Enhancing the Establishment of the Party" (*guanyu jiaqiang dang de jianshe de tongzhi*) asserted that "The CCP is the vanguard of the people, and people are being exploited by the private entrepreneurs, therefore private entrepreneurs are not allowed to join the CCP." However, private entrepreneurs joined unofficially even in this period. They still had to protect their property rights and enhance their social status by joining the party, having special relationship with high-ranking officials, bidding for the representative of Local Congress.[37]

Starting from 1990, inflation stabilized at the level of 2.1% while the growth rate recovered 7.0 percent, but improvement and rectification policy (*zhilii zhengdun*) was maintained until the end of 1991, when debates on the socialist development (*xingzi xingshe*) restarted between the reformers and the conservative cadres.

[37] Lu Xue yi (2002), pp.220~221.

1992-2000: Ideological and Institutional Support

In 1992, the CCP reported and ordered its member to study Deng Xiaoping's comments while touring the special economic zones in the southern areas of China by issuing the central document no. 2. While traveling, Deng lauded their achievements as showing the virtues of economic reform and encouraged local officials to be even bolder in their reform efforts. After this talk, the debates on the direction of reform (*xingzi xingshe*) was ended and the CCP leaders reconfirmed the "one central task (economic development) and two basic points (Reform and Opening and Four Basic Principles)" (*yige zhongxin liangge jibendian*)

At the fourteenth Party Congress in 1992, Deng's appeal was enshrined by Jiang Zemin in one of official doctrines, which is now openly called for the establishment of a "socialist market economy." This was regarded by other countries as putting economic growth to the country's highest priority by discarding the socialist ideology. As the engine of economic growth, private business gained a much-elevated status. In 1994, China's first Company Law (*qiye fa*) came into effect, allowing the establishment of "limited liability shareholding corporations" (*gufenzhi gongsi*).

In September 1997, Jiang Zemin reported at the fifteenth National Congress of Communist Party, stating that the "decreasing portion of the public-owned economy in national economy does not affect the characteristics of socialism in China." He also said that the limited liability shareholding corporations are useful in separation of ownership and control, as well as in enhancing the efficiency of capital management. They can be utilized in capitalist and socialist societies. By Jiang Zemin's outright support, private enterprise was regarded as an "important," rather than a "complementary" element of China's economy.

As discussed, private entrepreneurs were being recruited in this period. According to a survey conducted by the State Administration of Industry and Commerce Management (SAIC, *guojia gongshang guanli ju*), by 2000, 19.8 percent of private entrepreneurs already gain the membership of the party.[38] However, the CCP needed to establish the ideological background that could officially lift the ban of recruiting private entrepreneurs into the party. At the same time, the party needed to prevent the possibility that emerging capitalist would follow in the footsteps of other countries and press for liberal democratic change.

As Fewsmith explains, before Jiang Zemin's famous speech in June 2001, meetings of the Standing Committee of the Politburo discussed, revised, and determined the speech. The discussions that led into the speech took place over two years and included officials throughout China.[39]

2001-2002: Three Representatives

The earliest mention of the "Three Represents" (*sange daibiao*) theory by Jiang Zemin was during the time he was inspecting Guandong Province in February 2000. He asserted at the 18th anniversary of CCP in July 2001 that the CCP would officially remove the ban on recruiting private entrepreneurs. The Three Represents was designed to legitimize CCP's embrace of the private sector and the incorporation of new elites into China's political system. It announced that the CCP represented three sets of interests: "advanced productive forces" (*xianjin de shehui shengchanli fazhan yaoqiu*), "development of advanced culture" (*xianjin wenhua qianjin fangxiang*), and the "interests of the vast majority of the Chinese people (*guangda renmin genben liyi*)." Dickson and

[38] Kellee S. Tsai (2007), p.65.
[39] Fewsmith. 2002. "Rethinking the Role of the CCP: Explicating Jiang Zemin's Party Anniversary Speech." *China Leadership Monitor,* No.1 (2002), part 2.

Chen describe, "The elites came first, and the interests of the party's traditional base were subordinate to the priority on rapid growth."[40]

The Three Represents was added to the party constitution in 2002 to become an official ideology following Marxism-Leninism, Mao Zedong Thoughts, and Deng Xiaoping Theory. According to Bruce Dickson, the CCP already planned to let private entrepreneurs to join the party before the sixteenth Party Congress, while a hundred thousand private entrepreneurs applied to join the party before the announcement of the Three Represents. Private entrepreneurs in the CCP increased rapidly in this period. [41]

Hu-Wen Era: Looking for Harmony

Institutional supports for private entrepreneurs continued under the leadership of Hu Jintao and Wen Jiabao. Through the second session of the 10th National People's Congress (NPC) of the PRC, the CCP amended the state constitution to treat private property equally to the public property by stipulating that "Lawful private property is inviolable." The property rights were legalized strongly through enacting the "Property Law" (*wuquan fa*) at the 5th session of the 10th National People's Congress of the PRC in 2007. In fact, the bill was submitted to the Standing Committee of the NPC in 2002, but it has been opposed by members because it did not conform to the socialist ideology. It was enacted after more than seven debate meetings.[42]

Hu Jintao and Wen Jiabao are also committed to a more "harmonious society" (*hexie shehui*), as they try to make it through "scientific development concept" (*kexue fazhanguan*). In line with the concept, the CCP enacted and amended "Labor Contract Law" (*laodong hetong fa*), "Anti-monopoly Law" (*fan duzhan fa*), and "Social Security

[40] Jie Chen and Bruce J. Dickson (2010) p. 28.
[41] Bruce J. Dickson (2010a). p.78
[42] Kellee. S. Tsai (2007) p.71

Law" (*shehui baozhang fa*) in 2008. These did not only let private entrepreneurs do business according to the law, but also protected the rights of the disadvantaged people.

Private entrepreneurs in the party also increased in the Hu-Wen era. In 2007 a spokesman for the seventeenth National Congress of the CCP Li Dongsheng said at a press conference, "Among 10,773 members recruited from the new social classes, 1,554 persons are private entrepreneurs (14.4 percent)."[43] The eighth National Private Entrepreneur Sample Survey and Comprehensive Analysis Report also mentioned that private entrepreneurs occupied 33.5 percent in the CCP and increased from 32.2 percent in the 2006 survey. This figure is even higher than other social classes given that the CCP has 80 million members out of 1.3 billion populations (6%) in China by 2011.

This section discusses the attitude of the state toward private entrepreneurs which has been changed and fluctuated over time according to the leaders' debates on the pace and direction of the economic reform. Like other reform policies of the CCP, its leaders did not have a grand plan for private entrepreneurs ever since. As the private sector expanded and became important contributing factor to the economy, the CCP's official posture toward it has also changed. The current fourth generation of the CCP leaders has continued its support for the private sector but has tried to harmonize between development and sustainable growth. Nevertheless, the private sector has already become an important part of China's economy, while the capitalist are an ever more visible and influential part of China's political system.

State-Corporatism and the Reaction of Private Entrepreneurs

This section discusses its discovery on the state-private entrepreneur relations in China. In Chinese reform era, the state played the dominant role in the state-private

[43] People's Daily (renmin ribao), 14 October 2007.

entrepreneur relations. The party state has used corporatist strategies that select and include many entrepreneurs into the ruling elite group, and let business associations maintain its control. However, some private entrepreneurs and their associations have increasingly enjoyed the autonomous status within the boundary of state's permission.

In the corporatist model, societal groups are formally incorporated into a set of state-controlled organizations, emphasizing the vital role of the state in shaping state-society relations. This corporatism has been classified into two categories: the "state corporatism" in which the state plays a more dominant role in shaping the relations and the "societal corporatism" in which the state plays a less dominant role in influencing the relations.[44] Some scholars of corporatism perceive that state-corporatism model best explains the state-society relations in China, while others interpret it in a way that the societal-corporatism framework is more suitable to explain state-society relations in China.[45] However, as Scot Kennedy describes, societal-corporatism generally exemplifies the small industrialized states of Western Europe, Scandinavia, and East Asia where social systems are transparent and developed compared to that of China.[46] In general, the state-corporatism is thus more applicable to China's state-private entrepreneur relations. However, we still need to consider some business associations as playing more active roles than just being a "transmission belt," as discussed later in detail.

Some scholars emphasize the "selective" characteristic of decision making among CCP leaders. Young Nam Cho identifies two evident traits of decision making by the CCP leaders during the past three decades in China. First, the political reform in China has been carried out only when it has not challenged the political power of the

[44] Jie Chen and Bruce J. Dickson(2010) pp. 45~53
[45] Jonathan Unger and Anita Chan, "Corporatism in China: A Developmental State in an East Asian Context," in Barrett L. McCormick and Jonathan Unger, eds., *China after Socialism: In the Footsteps of Eastern Europe or East Asia?* (Armonk, N.Y.: M.E. Sharpe, 1996), p. 48.
[46] Scott Kennedy (2005), pp. 5~7.

CCP. Second, the political reform in the country has been implemented when it promotes economic development.[47] Yanqi Tong also classified Chinese civil society into two categories: "critical realm" and "non-critical realm."[48] Bruce J. Dickson accepts the concept of Tong and argues that the CCP selectively supports the civil society excluded in the "critical realm." [49] Mary E. Gallagher categorizes the emerging diverse civil society into two groups: "official civil society" that is guided and recognized by the state, and "unofficial civil society" whose activities are permitted and repressed by the state.[50] To sum up, private entrepreneurs and their associations are vulnerable to the state's selections, while the state plays a pivotal role in their existence and activities.

The following section discusses CCP's four corporatist strategy in shaping relations between the state and the private entrepreneurs. The first two strategies target private entrepreneurs as a group of a class, while the last two target their associations. First, the CCP has encouraged or permitted cadres and managers of SOEs to "plunge into the Sea" (xiahai) and become private entrepreneurs. Second, the CCP has embraced and co-opted successful private entrepreneurs into the party and the ruling elites. Third, the CCP has reinforced the "party building" (dangde jianshe) in private enterprises, and established the institutionalized links with private entrepreneurs using business associations. Fourth, self-organized associations are neither totally included nor excluded but tolerated by the state.

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[47] Young Nam Cho, "Democracy with Chinese Characteristics? A Critical Review From a Developmental State Perspective," *Issues& Studies*, Vol.45, No.3 (December 2009), p.92
[48] Yanqi Tong (1994), pp.333-353.
[49] Bruce J. Dickson(2003), pp.92~98.
[50] Mary E. Gallagher, "China: The Limits of Civil Society in a Late Leninist State," in Muthiah Alapappa(ed*.), Civil Society and Political Change in Asia: Expanding and Contracting Democratic Space* (Standford: Stanford University Press, 2004), pp.419-452.

To plunge into the Sea (xiahai)

Not all private entrepreneurs have benefited from the growth of the private economy and the increasing support that come from the government. Some private entrepreneurs had already established special ties with high-level government officials and party cadres from the beginning of their business. They were former government officials, party cadres, and managers of SOEs who already owned party membership and built special relationship with state organizations. Since the early 1990s, the CCP has implemented restructuring and privatization program to enhance the efficiency of SOEs. Some have been encouraged by the government while others have voluntarily left the position and have started their private businesses. These entrepreneurs were benefitted in many ways.

A CASS survey discloses that in 2002, an estimated 25.7 percent of private entrepreneurs were *xiahai* entrepreneurs, 50.7 percent of whom already owned party membership. Bruce J. Dickson's survey also indicates that 63 percent of private entrepreneurs were former cadres of SOEs, 30 percent were individual household entrepreneurs, and 18 percent were farmers before starting their businesses. Dickson asserts that only red capitalists who are former cadres are likely to be reliable supporters of the regime [51]

Cooptation and Inclusion of Successful Private Entrepreneurs

The CCP is the sole ruling party in China. Joining the party is the most important step to gain access to power. Private entrepreneurs in the party constantly increased. By 2007, an estimated 33.5 percent of private entrepreneurs own party membership which

[51] Bruce J. Dickson(2010), pp.33~37:105-121

increased rapidly between 2000 and 2002 when the ban was officially lifted (see Table 3.1).

Table 3.1 Party Members Among Private Entrepreneurs

Year	1993	1997	2000	2002	2006	2007
Number	189	353	609	972	1234	1372
Ratio (%)	13.3	18.1	19.9	30.2	32.2	33.5
Sample	1421	1947	3060	3220	3837	4098

Source: Lu Xueyi (2004). p.250 : The Seventh and Eighth Private Enterprise Sampling Survey Data Analysis Comprehensive Report.

A national survey shows that among the 33.5 percent of private entrepreneurs who own party membership, 87.7 percent became party members after 2001 when the Three Represents was officially announced.[52] The reason for this is that having a party membership has been regarded effective for business transactions requiring license, financing, and being awarded government projects. Similarly, the CCP also can incorporate the influential and successful people into the party by selectively endowing them of membership.

Party membership is not the only means to achieve political power. Some successful private entrepreneurs have participated in diverse political activities as they aim to establish their social status and honor. The CCP, which owns the organizational resources and dominates the political position in China, has selectively permitted and supported some cooperative and anti-political entrepreneurs to assume certain positions. They run as deputies of the Local People's Congress (LPC), and members of the Chinese

[52] See the eighth National Private entrepreneur Sample Survey Data Analysis and Comprehensive Report published in 2008.

People's Political Consultative Conference (CPPCC). Although the LPC deputies at the county and township levels are directly elected by the eligible voters, the elections are closely monitored and controlled by CCP organizations. Therefore, those who become LPC deputies are included or co-opted by the party provided they support the party line. With the approval of CCP organizations, members of the CPPCC and its branches are all appointed by the leaders of previous sessions of these organizations. Table 3.2 shows the proportion of private entrepreneurs who are assuming the political positions at each level of China.

Table 3.2 Proportion of Private Entrepreneurs Assuming Positions in People's Congress (PC) and CPPCC

Level	1997		2000		2002		2007	
	PC	CPPCC	PC	CPPCC	PC	CPPCC	PC	CPPCC
Township and Village (%)	30.5	6.5	17.6	2.1	23.8	1.0	12.8	0.0
County (%)	35.5	57.0	44.1	63.4	33.1	61.4	47.2	61.2
City (%)	27.4	28.1	30.0	29.1	38.5	32.7	30.3	33.0
Province (%)	6.6	7.3	7.5	5.1	4.2	4.6	7.7	5.2
Nation (%)	0.0	1.1	0.8	0.3	0.4	0.2	2.0	0.7
Sum (%)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Sum (No.)	187	458	510	1075	565	1143	885	1215
Rate of Assuming Position (%)	9.6	23.5	16.6	35.0	17.4	35.0	21.6	29.6

Source: Data from the 1997~2002 surveys are available from Lu Xueyi (2004). p.264; data from 2007 survey is available from the eighth Private Enterprise Sample Survey Data Analysis and Comprehensive Report.

Selected studies indicate that the political reform program has improved the roles of the LPC and CPPCC. Undeniably, the LPC and CPPCC have been utilized for decades to support the CCP's corporatist strategy. Jonathan Unger and Anita Chan maintain that in the 1980s a disproportionate number of seats of the CPPCC and LPC had been

reserved for the representatives of the Democratic Parties. In a bid to give further sectoral representation to China's growing body of private entrepreneurs, the ACFIC joined the democratic parties as a constituent member of the CPPCC.[53] Bruce J. Dickson explains that the LPC and CPPCC membership among private entrepreneurs results from the CCP's strategy of including or co-opting capitalist.[54]

The CCP has also officially acknowledged the contributions that private entrepreneurs have accorded the Chinese society by granting the recognition, "model worker" (*laodong mofan*), as the most privileged prize to successful private entrepreneurs. In 2005, 30 private entrepreneurs were selected for the first time, while an increasing number of private entrepreneurs have been selected at each region in China. Recently, the recognition for being an "Excellent Builder" (*youxiu jianshezhe*) is only given to entrepreneurs, while private entrepreneurs request an equal consideration to award the prize to the "*laodong mofan*."[55]

Linking with Business Associations and the Party Building

Nongovernmental organizations in China are called "*shehui tuanti*" (social organization). Specifically, they are "*xuehui*" (academic association), "*yanjiuhui*" (research association), "*hangye xiehui*" or "*gongye xiehui*" (industry association), "*tontye gonghui*" (industrial union), "*shanghui*" (chamber of commerce), "*lianyihui*" (friendship association), "*jijinhui*" (Foundation). Business associations are classified by Scott Kennedy based on the members' ownership form and product type.[56] Among business associations, "official associations" for private entrepreneurs (including individual

[53] Jonathan Unger and Anita Chan, "China, Corporatism, and the East Asian Model," *The Australian Journal of Chinese Affairs*, No. 33(Jan., 1995). pp.29-53.
[54] Bruce J. Dickson (2010), p.38-67.
[55] China Private Entrepreneur Research Task Team (*zhongguo saying qiye yanjiu ketizu*). 2008.
[56] Kennedy Scot t(2008). pp. 29-36.

household entrepreneurs) are "All-China Federation of Industry and Commerce (ACFIC, *gongshanglian*), Self-Employed Laborers Association (SELA, *geti laodongzhe xiehui*), and Private Enterprises Association (PEA, *siying qiye xiehui*).

These official associations are run by the State Administration for Industry and Commerce (SAIC, *guojia gongshang xingzheng guanli ju*), a primary regulator of businesses, and supervised by the CCP Central Committee's United Front Department (*tongyi zhanxian gongzuo bu*), where high-ranking officials and cadres are positioned. At the SAIC's initiative, local SELA branches began to be set up in 1982, and the national SELA was formally established in 1982. All *getihu* and private entrepreneurs with less than eight employees were automatically made members of SELA on obtaining business licenses. Local branches of PEA were created in 1988 upon authorizing private enterprises. However, no national PEA was established. The ACFIC was established in 1953, but closed in the period of Cultural Revolution. The Federation was revived in 1977, and was found to have the greatest influence even on the largest and most prestigious enterprises. The ACFIC distinguishes itself from all other associations by being a section of the CPPCC.[57] According to a 1991 central document released entitled, "Asking for Instruction Regarding Some Issues of ACFIC" (*guanyu gongshanglian ruogan wenti de qingshi*), ACFIC is comprised of associations such as SELA, PEA, China Township and Village Enterprise Association (CTVEA, xiangzhen qiye xiehui), and China Association of Enterprises with Foreign Investment (CAEFI, *waishang touzi qiye xiehui*). Some prominent individuals such as the CEOs of state-owned enterprises were also included. Bruce J. Dickson adds that ACFIC can recommend candidates for the LPC and CPPCC.[58]

[57] Bruce Dickson(2003), p. 74; Kennedy Scott(2008). pp. 29-36.
[58] Bruce J. Dickson (2010), p. 48.

Most private entrepreneurs are members of one or more business associations. However, surveys reveal diverse views of members concerning the associations' ability to represent the interests of their members. For example, Bruce J. Dickson's survey shows that members of each business associations have different views on whether their associations represent the views of their members.[59] The Chinese national survey shows that private entrepreneurs expect their associations to protect their interests while they are dissatisfied with the capabilities of the associations. About 61.2 percent of private entrepreneurs belong to the state-led official association, but they think the associations need to be reformed.[60]

However, the CCP did not allow the self-organized and fully autonomous associations to represent the voices of private entrepreneurs. Thus, in 1998, the eighth ordinary session of State Council approved a "Regulation on Registration and Management of Social Organizations" (*shehui tuanti dengji guanli tiaoli*). This regulation stipulated the formal process and conditions for associations to be registered. Mary E. Gallagher described the process and conditions:

> *The regulations set out a system of hierarchical organization that ties the social organization to two supervising bodies: the professional business unit (yewe zhuguan danwei) and the authorizing government body (dengji guanli jiguan)… a professional business unit (PBU) must be found to serve as guarantor of the social organization… most PBUs are department of governents (local, provincial, national) or of the Chinese Communist Party… After a social organization has found a PBU,*

[59] Bruce J. Dickson. "Do Good Businessmen Make Good Citizens? An Emerging Collective identity Among China's Private Entrepreneurs." Merle Goldman and Elizabeth J. Perry (ed.) *Changing meanings of Citizenship in Modern China* (Cambridge, Massachusetts: Harvard University Press, 2002) pp. 255-287.
[60] See The eighth National Private entrepreneur Sample Survey Analysis and Comprehensive Report published in 2008.

it then makes an application to the registration and administration organs (dengji guanli jiguan), usually the local civil affairs department or, in the case of national social organizations, the Ministry of Civil Affairs.[61]

In other words, the social organizations should be under the control of the party state while inter-regional coalescence is strictly forbidden.

Another corporatist strategy of the CCP to supervise the activities of private entrepreneurs is the "party building" in private enterprises. The document entitled "Opinions of Organization Department of CCP Central Committee regarding the Party Building Work in Non-Public Economic Organizations Including Individual Household Enterprise and Private Enterprise" (*zhonggong zhongyang zuzhibu guanyu zai geti he saying deng feigongyou jingji zhong jiaqiang dang de jianshe gongzuo de yijian*), released in September 2000, stressed that enterprises having more than 3 and less than 50 party members should establish a "party branch" (dangzhibu); enterprises with more than 50 party members should establish a "general branch committee" (zongzhibu weiyuanhui) of party, and enterprise with more than 100 members should establish a "grassroots committee" (jiceng weiyuanhui) of party. This policy, on the one hand, reflected the conservative voices in the party before the ban of recruiting private entrepreneurs were lifted from Jiang's "Three Represents." On the other hand, it is a corporatist strategy of the CCP that tries to reinforce the vertical hierarchy in order to supervise and control the activities of private enterprises. However, the table 3.3 indicates that the party building was primarily focused on the large enterprises rather than small enterprises.

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[61] Mary E. Gallagher. "China: The Limits of Civil Society in a Late Leninist State," in Muthiah Alagappa (ed.), *Civil Society and Political Change in Asia: Expanding and Contracting Democratic Space* (Stanford: Stanford University Press, 2004), p. 419-452.

Table 3.3 Party Organizations established in Private Entrepreneurs in 2007

Party member	Party committee	Party's general branch	Party branch	Party small group	No organization
3~50	2.6%	4.6%	58.1%	8.1%	26.6%
50~ 100	50%	17.7%	30.6%	0%	1.6%
More than 100	75%	13.6%	11.4%	0%	0%

Source: 2008 the Eighth Private Enterprise Sample Research Data Analysis and Comprehensive Report.

Tolerating Autonomous Activities

Scholars disagreeing with the state-corporatism point out that Chinese social organizations increasingly have autonomy from the control of the state. In fact, we need to pay attention to the recent enhanced role of ACFIC and other grassroots organizations at the local level. Instead of being a "transmission belt" that conveys the state's decree to society, they serve as institutionalized forums for mutual interactions and continuous negotiations between the state and the organizations. Nevertheless, their seemingly autonomous activities are tacitly allowed and tolerated by the CCP. If the CCP finds any of their activity is dangerous or not helpful to maintain the sole party regime, they will be stopped and persecuted just as the CCP has treated "Falun Gong"

Unger and Chan explain that ACFIC owns 28 profit-making companies and publishes its own successful newspaper. With federations as intermediary, the umbrella organizations have moved from direct government intervention. It sponsored the establishment of a national "Private Enterprise Research Association" (*zhongguo minsiying jingji yanjiuhui*) in 1993, as it connects wealthy businesspeople throughout the country. ACFIC establishes the local Chambers of Commerce (*shanghui*) which is a

single step further removed from government oversight.[62] In addition, ACFIC convened diverse forums to gather the opinions of private entrepreneurs before the Constitutional amendment on private property rights in 2004.

As briefly described earlier, the CPP does not control every social organization. Some associations are embedded "within the Chinese system" (*tizhinei*), while others are "outside of the system" (*tizhiwai*). Only if *tizhiwai* enterprises are not politically sensitive, their activities can be tolerated. These tizhiwai enterprises, however, are excluded from policy making and from getting financial support from the state, which tizhiwai associations desperately try to lobby and press. Jie Chen and Bruce J. Dickson indicate that the recent surge of tizhiwai associations and their increasing role make the CCP's corporatist strategy useless and unsuccessful. Their survey shows that the political embeddedness of private entrepreneurs to the state (calculated by three factors: party membership, joining business associations, and assuming political positions in LPC and CPPCC) has marginal impact on the regime support, and this proves that the party's corporatist strategy is unsuccessful.[63]

As discussed, the party state used four types of corporatist strategy which successfully include the new emerging social class into the ruling elite group. Simultaneously, the party excluded and persecuted the private entrepreneurs who do not share the goals of the CCP. As Scott Kennedy argues, some of their activities are hardly expressed in the narrow definition of corporatism.[64] However, corporatism provides the key explanation in the underlying relationship of the state and private entrepreneurs in China.

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[62] Jonathan Unger and Anita Chan (1995), pp.49-50

[63] Bruce J. Dickson (2010) .

[64] Scott Kennedy suggests four components of corporatism: limited autonomy, associations that are compulsory, hierarchy among associations, and jurisdictional monopolies. He argues that those components except the limited autonomy are not prominent in China. See Scott Kennedy (2005), pp.40-44.

Clientelist ties and reaction of private entrepreneurs in local area

Although the state's corporatist strategy has legalized and supported the business activities at the central level, it has not removed the difficulties that private entrepreneurs encounter in their daily business. Policies of the central government and the party sanctioned and institutionalized what has already transpired at the local level, while some corporatist policies were aimed at controlling and supervising the business activities of private entrepreneurs. To cope with the obstacles of the business, the local private entrepreneurs have actively expressed their active and diverse reactions. This section now unveils its discovery on the diverse coping strategies of China's private entrepreneurs.

Clientelism in the Reform Era

Clientelist ties are a contractual transaction reflecting power asymmetries between exchange partners: patron and client.[65] The patron (usually state agents) provides the client with steadier access to resources in exchange for dependency and allegiance.

According to David L. Wank, clientelist ties in China have some characteristics. It is horizontal, not vertical relations, which means the two parties need each other. Also, the relations with officials are supportive, not predatory. In addition, because local governments are evaluated mainly by their economic performances, the officials need to boost the business activities of private entrepreneurs. Therefore, the relations contain many practices that deviate from central directives that the central government condemns. All these characteristics imply that the relations are "symbiotic."[66]

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[65] David L. Wank (1999), p. 10.
[66] David L. Wank (1999), p. 10; Pearson (1997), p.112.

In the early reform period, many private entrepreneurs, who feared being stigmatized as "capitalists," colluded with the officials of collective enterprises and disguised their companies as subsidiary companies of collective enterprises ("hanging on," *guakao*). These private entrepreneurs paid the local governments officials for helping them "wearing a red hat" (*dai hong maozi*), which means registered as collective enterprises. When private enterprises were registered as affiliated to the collective enterprises, they usually pay the "management fee" (guanlifei). In addition, some private entrepreneurs registered their companies as "school-owned enterprise" (*xiaoban qiye*), while others registered as a "welfare enterprise" (*fuli qiye*), as if they were under the control of "Ministry of Civil Affairs" (*minzhengbu*). Besides, they registered as Chinese-foreign joint ventures (*zhongwai hezi jingying qiye*) by "wearing a foreign hat" (dai yang maozi) and registered as individual household enterprises (*getihu*) by "wearing a small hat" (*dai xiao maozi*).[67]

David L. Wank introduces the Chinese idioms that describe the clientelist ties. In Xiamen entrepreneurs refer to state agents who provide benefits over time as "backstage bosses" (*houtai laoban*) and "backers" (*kaoshan*). They search for ties that provide more "efficacious" (*ling*) backing. They also need to reduce the risk by "paving a route of retreat" (*pu houlu*) or by "sheltering from the wild" (*bifeng*). They "promote connectivity" (*bangzhu lianluo*) to find the "hard" (*ying*) way to link to the backers.[68]

Clientelism includes diverse unofficial activities between the business and local state agents, so it is closely related to corruption. As Scott Kennedy points out, most of the cases of clientelism are related to problems specific to a firm that can be resolved by the intervention of one or two officials. These include approval for business licenses,

[67]Li Peilin, Li Qiang, Sun Liping. 2004. *Chinese Social Stratification* (zhongguo shehui fencing). (Beijing: Social Science Academic Press) p. 323.
[68] David L. Wank (1999), pp. 70-72.

investment plans, permits, bank loans, and the sale of certain products; reduction of tax payments; access to land and other resources; and favorable verdicts on court cases.[69] A city can impose dozens of surtaxes and administrative fees and assess fines for tax evasion and regulatory violations. Only taxes on income, industrial, and commercial entities are imposed by the central state. Local officials have the discretion to whether they levy the corresponding amount on certain entrepreneurs.[70] Therefore, the close relationship of private entrepreneurs with the local government is critical.

Private entrepreneurs give kickbacks (*huikou*), cash bribes (*huilu*), and gifts to officials. They create obligations from officials by paying frequent social visits. They routinize the ties by employing local state agents as business advisors or board members. They even make family ties.[71]

David L. Wank introduces a case of Chen Youfu who became successful in employing the clientelist ties that prevailed throughout the reform era. He began in 1979 as a private grocery stall owner and assumed a leadership position in the Self-Employed Laborers Association (SELA, *geti laodengzhe xiehui*). In this position he developed ties with the subdistrict level officials of the Xiamen Industry and Commerce Bureau that managed the associations. In 1984, these street-level officials recommended him to district officials to authorize the operation of a cooperative trading company and arranged large loans from state banks. In 1985, he held a national sales convention in Xiamen and landed orders from all over China using kickbacks. His explosive success caught the eye of city-level officials, and he was elected as a national model youth entrepreneur. During the subsequent awards ceremony in Beijing, he met state factory chiefs who sold him steel cable which he resold for large profits in Fujian and Guangdong.[72] This success

[69] Scott Kennedy (2005), pp. 53-55.
[70] David L. Wank (1999), pp. 72-73.
[71] David L. Wank (1999), pp. 98-101.
[72] David L. Wank (1999). pp.86-87

story shows the benefits of clientelist ties that private entrepreneurs in China try to emulate.

Beyond Traditional Clientelism

As the Chinese economy grows and competitions in business intensify, the traditional clientelist ties evolve forms that are more complicated. Scholars point out that these new ties between state agents and private entrepreneurs in local level have gone beyond the traditional clientelism. The unofficial ties have been transformed to official ties, while personal ties that used to engage one or two officials and firm owners have expanded to the regional level. Many autonomous associations have emerged locally to protect the interests of their members.

As David L. Wank indicates, traditional *guanxi* practices are increasingly seen as dangerous because of ongoing state campaigns emphasizing "anti-corruption" and the "rule of law." More entrepreneurs understand its use as exposing them to charges of economic crimes. Furthermore, it is inefficient because the time spent in choosing gifts and extending invitations was something that entrepreneurs could hardly afford in a market economy where time is money. However, he argues that *guanxi* practice is still useful for entrepreneurs to enter a new sector.

The rise of a market economy and the perception of the rule of law have stimulated new clientelist networks to influence officialdom across the local state-society borders. Therefore, the clientelism has moved away from a highly personalized to localized networks. As the state's main goal is economic development, deviant local policies (*tuzhengce*) which are more "adaptive to local conditions" (*yao fuhe defang*

tiaojian) have been justified by local government officials.[73] As we see in the "Ximen Yuanhua Economic Smuggling Scandal," called the largest corruption economic scandal in China, hundreds of high-ranking officials of the CCP and the local governments were connected and bound these days into a regional level of economic project.[74] The support web of the entrepreneur extended all the way to the wife of a central Politburo member.

This kind of extended clientelism is also seen in Scott Kennedy's study. Private entrepreneurs use lobbying firms that are staffed by former officials or relatives of current officials. The firms push officials or negotiate with local government to find out a win-win outcome for all interested parties.[75] He argues that clientelism only affects a firm but the proactive public policy lobbying affects the policy-making process of their industry. They are certainly not strong enough to affect "trans-sectoral policies" that are belonged to the authority of central government.[76]

For example, Chinese software companies that were hit by the rampant violation of software copyright in the 1990s formed the "China Software Alliance" (*zhongguo ruanjian lianmeng*). They set up "observation posts" (*guanchazhan*) in retail stores and regularly hosted or attended meetings with various government agencies responsible for enforcement and policy making, including the State Administration for Industry and Commerce (SAIC). Their activities contributed to revising "the Computer Software Protection Regulations" (*jisuanji ruanjian baohu tiaoli*) and the "Copyright Law" (*zhuzuoquan fa*).[77] In 1998, the Ministry of Finance (caizhengbu) tried to institute a special consumption tax on some electronic alliances to prevent overheating. Members of

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[73] David Wank, "Business-State Clientelism in China: Decline or Evolution?," in Thomas Gold, Doug Guthrie and David Wank (eds*.), Social Connections in China: Institutions, Culture and the Changing Nature of Guanxi* (New York, NY: Cambridge University Press, 2002), pp.97~115.
[74] Xinhua Net, 10 May 2012; David L. Wank 2002) pp.97~115
[75] Scott Kennedy (2005) pp. 54-55.
[76] Scott Kennedy (2005) p. 178.
[77] Scott Kennedy (2005) pp. 151-155.

the China Audio Association (*zhongguo yinxiang xiehui*) organized a meeting with officials from the State Economy Trade Committee (SETC, *guojia jingji maoyi weiyuanhui*), the State Taxation Administration (STA, *guojia shuowu zongju*), and the Ministry of Information Industry (MII, *xinxi chanyebu*). They appealed to the negative impacts of tax on their business as well as the industry, which eventually reversed the plan for the tax.[78]

Kellee S. Tsai focuses on diverse forms informal institutions embedded in China's private economy. She argues that the "informal coping strategies" used by private entrepreneurs to avoid or circumvent the central policies have routinized and developed into the "adaptive informal institutions," which redirect and undermine the formal institutions over time.[79]

For example, when private entrepreneurs in Wenzhou had difficulties in financing in the late 1980s, they created "financing service company" (jinrong fuwushe) by the permission of a state-owned bank. Later, the company had developed into the "city credit company" (chengshi xinyongshe) through equity sharing. In 1997, the state legitimized the status of the company as the "city commercial bank" in order to control illegal private financing which prevailed in the area. By 2000s, the scope of private financing in Wenzhou even surpassed the total amount of state-owned bank loans, while the situation has not resolved the difficulties of private entrepreneurs. In March 2012, the State Council's ordinary session led by premier Wen Jiabao decided to establish a "financial reform experiment district" in Wenzhou to promote private financing further. This is a case indicating that "adaptive informal institution" has affected a formal institution.

[78] Scott Kennedy (2005) pp. 117-118.
[79] Kellee S. Tsai(2007) p. 36~43.

As discussed in this section, clientelist ties are symbiotic relations that bond private entrepreneurs and local government officials in the Chinese reform era. Recently, these ties have evolved to become more official, extended, and complicated webs of network in wide regions. However, these symbiotic relations will flourish all across China and affect national policies over time as long as the state's primary goal is economic development and the local government officials are assessed mainly by their economic performances.

Chapter IV

Diverse Composition of Private Entrepreneur Class and the Emergence of a Shared Identity

The previous chapter discusses two main concepts explaining the state-private entrepreneur relations in China. "Corporatism" describes the cozy relationship between the state and private entrepreneurs as a class, while "clientelism" describes the personal and unofficial relationships interconnecting the local government officials and the private entrepreneurs as individuals. However, some scholars of clientelism focus on diverse cases concerning the coping strategy and different reactions of private entrepreneurs toward state policies. With these, they tend to see private entrepreneurs as divided and fragmented groups that lack structural impact on society. In this sense, this chapter then tries to explore the possible existence of a shared identity among private entrepreneurs whose diverse backgrounds and interests are the points of clarification in the first section of this chapter. The second section analyzes their common goals, challenges, and collective actions.

Diverse Composition of Private Entrepreneurs

Having emerged in the ever-changing socioeconomic climate of Chinese reform era, private entrepreneurs are a composition of diverse groups that represent different experiences and backgrounds. Kellee S. Tsai argues that the diversity of private entrepreneurs can be explained into three criteria: career backgrounds, business size, and political attitude/ networks.[80]

Diverse Career Backgrounds

The previous occupations of private entrepreneurs show the diversity of their origins. As table 4.1 specifies that former cadres of the party and government organizations occupy more than 50 percent. In the occupations column, former private entrepreneurs as well as former CEOs and managers of state-owned enterprises (SOEs) represent a large number. In general, they are composed of many groups with diverse occupational backgrounds. Given the great disparity that exists in Chinese society, it is easy to conjecture that former government officials and former farmers differ in a number of factors such as family background, the level of education, and political network. Kellee S. Tsai's interview indicates that former cadres also have better access to resources as loans, permits, and licenses compared with those of former farmers.[81]

Table 4.1 Occupational Backgrounds of private entrepreneurs, 2007

Previous workplaces	Ratio (number) in sample	Occupations
The party and government organizations	18% (733)	General cadres 38.6% (283) Section(*ke*) level cadres 22.1% (162) County (*xian*) level cadres 5.6% (41)

[80] Kellee S. Tsai (2007), pp.72~104.
[81] Kellee S. Tsai (2007), pp. 85~88.

		Bureau (*ting*) level cadres 3.1% (23) Technical cadres 17.2% (126) Professors 13.4% (98)
State-owned Enterprise	26.9% (1098)	CEOs and managers 31.8% (349) Technical engineers 27.6% (303) Supplies and sales managers 14.1% (155) General staff 26.5% (291)
Collective enterprise	18.2% (741)	CEOs and managers 43.2% (320) Technical engineers 19.7% (146) Supplies and Sales managers 18.6% (138) Laborers 18.5% (137)
Taiwan, Hong Kong and Macau-based enterprise	4.5% (182)	CEOs and managers 52.1% (95) Technical engineers 21.4% (39) Supplies and Sales managers 12.6% (23) General staff and laborers 13.7% (25)
Private enterprise	21.7% (883)	CEOs and managers 65.1% (575) Technical engineers 12.2% (108) Supplies and Sales managers 11.2% (99) General staff and laborers 11.4% (101)
Farming	13.5% (549)	Village cadres 26.2% (144) Immigrant laborers 15.8%(87) Pure farmers 57.9% (318)
Individual household enterprise	11.5% (75)	
Military	1.8% (75)	
Other occupations	0.9% (37)	
Stay abroad	1.5% (63)	
Unemployed	1.6% (62)	

Sources: 2008 the Eight National Private Enterprise Sample Survey Data Analysis and Comprehensive Report.

One noticeable phenomenon is the increase of the elite becoming entrepreneurs. More and more CEOs as well as managers of SOEs and cadres start new businesses characterized with competitiveness and sustainability, while the general staff and laborers

have minimized opportunity to open their own profitable businesses. This trend implies that private entrepreneurs are climbing up the social ladder.[82]

Diversity in Business Size

Private businesses are diverse in their business size. As seen in many fast growing economies, large Chinese enterprises have expanded their assets and sales from being small and middle-sized enterprises. Table 4.2 indicates that even though the median value of an owner's equity and sales are growing, some enterprises grow even faster.

Table 4.2 Owner's Equity and Sales of Private Entrepreneurs

	Year	Median (million yuan)	Over 10 million yuan	Over 50 million yuan	Over 100 million yuan
Owner's equity	2003	1.85	21.7%	5.6%	2.6%
	2005	2.00	24.5%	5.2%	2.2%
	2007	3.00	29.9%	8.0%	3.3%
Sales	2003	4.40	35.6%	12.3%	6.0%
	2005	6.54	42.7%	17.7%	10.0%
	2007	7.84	46.3%	22.3%	13.0%

Sources: The Eighth National Private Enterprises Sample Survey Data Analysis and Comprehensive Report.

The annual income data shows the gap among private entrepreneurs. By 2007, for instance the average annual income is 459 thousand Yuan while the median value is 125 thousand Yuan. These figures signify the increasing gap between the two values, and this means that there are more and more super income entrepreneurs in China. This huge inequity leads to different standards of living, creating among the poor different values and interests when compared with the rich private entrepreneurs.

[82] Lu Xueyi (2004), p. 251.

Diversity of Political Attitude and Network

Private entrepreneurs have diverse political attitudes and networks. Mentioned in the previous chapter, 33.7 percent of private entrepreneurs in 2007 are CCP members, while many of them are deputies of the Local People's Congress (LPC) and members of the Chinese People's Political Consultative Conference (CPPCC). These entrepreneurs have diverse demands and complaints based on their political capabilities, authorities and connections.

Kellee S. Tsai, in her analyses, classifies the diverse attitudes of private entrepreneurs into four categories based on their "ability" and "desire" to confront the state. First, private entrepreneurs in the "avoidant" category are not registered with the National Bureau of Industry and Commerce Management, as well as the Private Enterprise Association (PEA). They do not conduct business in officially designated market areas, and approximately 15.3 percent of private entrepreneurs are in this category. Second, the entrepreneurs categorized as "grudgingly acceptant" comply with the terms of doing business reluctantly. They occupy 11.9 percent of private entrepreneurs. Third, 68.2 percent of entrepreneurs are categorized as "loyally acceptant." They cultivate good relations with state agents and resolve problems through informal means. The last group of entrepreneurs, estimated at 4.7 percent, is categorized as the "assertive" private entrepreneurs who individually and collectively confront the state with requests and grievances.[83]

Jie Chen and Bruce J. Dickson have analyzed the political networks of private entrepreneurs and their "embeddedness" to the state. They saw three types of membership---the CCP, official business associations, and government posts---as indicators of political embeddedness in the assumption that the more types of

[83] Kellee S. Tsai (2007), pp. 106~144.

membership entrepreneurs possess, the more deeply they are embedded in the party state. The result of the analysis has proven that deeply embedded private entrepreneurs are more likely to operate larger and more profitable firms, and are practicing business longer than those who are not embedded. The survey data also says that although the political embeddedness does not have significant relations with the support for the current regime, the "red capitalist," who are the most embedded to the state, are reliable supporters of the CCP regime.[84]

As discussed in this section, Chinese private entrepreneurs are diverse in their occupational backgrounds, business size, and the political network and attitude. The diversity can prevent them from forming a social class and from having a shared identity. Kellee S. Tsai points out that this "internal stratification" among entrepreneurs limits the likelihood that they will make organized political demands on behalf of a broader class, much less develop consensus on the desirability of democracy.[85] In other words, the "red capitalists" and former peddlers are different in their values, interests and identities.

Emerging Shared Identity as Private Entrepreneurs

In operating "private enterprises" (*siying qiye*) in China, do private entrepreneurs not share in common any difficulty, goal, or challenge regardless of diversity in occupational background, business size, and political network and attitude? In a survey conducted by Chinese Academy of Social Science on the class identity of Chinese middle class, the author asserted that in order for a class to have a shared identity, the class should share "a sense of sameness"(*tongyixing*) and "a sense of distinction"

[84] Jie Chen and Bruce J. Dickson (2010), pp.105-121.
[85] Kellee S. Tsai (2007), pp. 72~73.

(*chabiexing*).[86] In this regard, this section discovers whether private entrepreneurs in China have a shared identity by discovering their business goals, challenges, and associational activities in terms of the "sameness," and changing values and class consciousness in terms of the "distinction."

Goals of Private Entrepreneurs: Expanding Business, Enhancing Social Status, and Protecting Private Property

As in the previous section has discussed, large business owners in China have better access to resources such as supplies, financing, and the ability to obtain permits and licenses. The sizes of assets and sales are the primary factors that officials of local governments consider when they offer benefits. As Kellee S. Tsai's interview also indicates, enterprises "need to be big enough for the government to help out with things like credit," "the larger a private enterprise becomes, the more local authorities appreciate it." It has become more difficult for individual household businesses to scale up and become private enterprises.[87] Scott Kennedy also asserts, "increasingly in the People's Republic, size, not ownership or nationality, determines a company's ability to influence public policy."[88]

Interestingly, large business owners also have difficulties to expand their businesses. A business needs to keep growing and expanding in a market economy where companies should lower the costs by achieving "economy of scale." However, according to a survey conducted by Bruce J. Dickson, further growth of large firms has been increasingly restricted by the government's existing regulations and policies. They need

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[86] Zhou Xiaohong. *Chinese Middle Class Research (zhongguo zhongchan jieceng diaocha* (Beijing: Social Science Academic Press, 2005). p. 30~31; Richard Jenkins, *Social identity* (London: Routledge Publishing Group, 1996), pp.3~4.
[87] Kelle S Tsai (2007) p.87.
[88] Scott Kennedy(2005), p. 171.

to pay huge amount of taxes, participate into government-led social projects, and make donations regularly, among other concerns. Thus, large business owners prefer a more democratic system that help them break these restrictions.[89]

The growth of business is closely related to the second goals of private entrepreneurs to enhance their social status. As seen in table 4.3, the most preferred way of enhancing their social status is to expand their businesses. Besides, they also support public welfare projects, build a good image in local communities, and become deputies of LPC and CPPCC. Unexpectedly, joining the CCP, having governmental positions, and becoming representatives of communities (*shequ*) are ranked low.

Table 4.3 Best way to Enhance Social Status for Private Entrepreneurs

Rank	Percentage of choice
To expand business	81.6
To support public projects	61.1
To build good images	52.0
To become deputies of LPC and CPPCC	30.9
To advertise the business on media	18.9
To keep in touch with officials	15.7
To reflect opinions to local government through associations	11.4
To join the CCP	7.6
To have a government position	4.6
To be elected to a representative of community	2.1

Sources: Lu Xueyi, (2002), p.221.

Supporting public projects is important for private entrepreneurs to clear their name as being "capitalist," pacify the social jealousy called "red-eye disease" (*hongyanbing*), and increase their influence in local communities. Table 4.4 shows the rapid increase of donations by private entrepreneurs between 2005 and 2007. It is

[89] Bruce J. Dickson (2010), p.102.

noticeable that donations made by members of "democratic parties" (*minzhudang pai*) have increased faster than the members of the CCP. That is due, in part, to the political anxieties that they feel in doing business as political minors (2%-7%) in Chinese society.

Table 4.4 Donations of Private Entrepreneurs by political affiliations

Political affiliations	2005		2007	
	Ratio (%)	Median	Ratio (%)	Median
CCP	89.4	38000	93.0	100000
Communist Youth League	69.0	5000	79.9	20000
Democratic parties	96.3	100000	95.1	150000
Total	84.1	50000	86.7	60000

Source: The composition of the 7th and 8th National Private Enterprise Sample Survey and Comprehensive Report

Lastly, private entrepreneurs in China try to protect their property by minimizing political risks. They have collective memories of persecution and repression, while they are stigmatized as "*yise fensi*" (people of different color) in times of class struggle. These historic memories have them obsessed with protecting their properties.

Andrew G. Walder and Jean C. Oi emphasize, "Reform in China has proceeded through the gradual reassignment of specific property rights from higher government agencies to lower government agencies, or from government agencies to enterprises, managers, families, or individual." They suggest five different processes that property rights in China have moved away from traditional state ownership: the contracting or leasing of public assets; the sale or privatization of those assets; the illicit transfer of ownership to elites; investment by state entities in private enterprise; and the creation of

new family of other private businesses.[90] Chinese property rights have expanded from the major cities and coastal area through the state's corporatist strategies and grassroots capital mobilizations.

Today, private entrepreneurs are viewed as "builders of socialism with Chinese characteristics." However, they still worry about sudden political winds that might change their destinies. Lu Xue yi introduces that many private entrepreneurs "written in the different book" (*daru lingce*) are being purged or expropriated by the state.[91] In such an authoritarian society governed by a sole communist party, protecting property rights might be the primary concern of all private entrepreneurs.

Challenges Shared by Private Entrepreneurs: Financing, Restricted Business Sectors, and External Business Environment

Despite the institutional and ideological support from the central government, the private entrepreneurs are still more disadvantaged in raising capital than other types of enterprises at the local level. Most banks are state-owned, and so the financial resources are allocated to state-led super-sized projects or unprofitable SOEs and collective enterprises. Similarly, they have difficulty raising capital by issuing bonds because the credit rating industry in China remains underdeveloped. The foreign capital receives incentives as tax breaks for investing in China, and these discriminates private entrepreneurs. Therefore, Chinese firms raise capital and receive incentives through dummy corporations in Hong Kong or elsewhere outside China. Bruce J. Dickson

[90] Andrew G. Wander and Jean C. oi, "Property Rights in the Chinese Economy: Contours of the Process of Change." Jean C. Oi and Andrew G. Walder (eds.). *Property Rights and Economic Reform in China* (Stanford, CA: Stanford university Press, 1999), pp.1-24.
[91] Lu, Xueyi (2002), pp. 223-224.

introduces a case of Lenovo, whose business activities mostly take place in China, registered as a wholly owned foreign-invested enterprise headquartered in Hong Kong.[92]

Added to the difficulty in raising capital, private firms are also restricted from entering certain key industries. Bruce J. Dickson notes that the state prevents entry of private firms into industries that are deemed to have strategic importance in terms of energy, transportation, and communication. For example, Yang Bin was the second richest entrepreneur in China by 2001. He shared a close relationship with the North Korean government, and he was appointed the administrative minister of Shin-Eui-Joo Special Economic Zone. However, this appointment was unauthorized by the Chinese government, and he was promptly arrested for tax evasion and other economic crimes.[93] As also discussed in the previous sections, the Chinese government can change the destinies of entrepreneurs and their businesses once they enter into the unauthorized areas.

The ever-changing external business environment is also a big challenge to private entrepreneurs. Table 4.5 shows that their business is mainly affected by the surge of labor cost, competitions created by overproductions, and the increasing cost of energy and raw materials.

Table 4.5 External Factors That Affects Business Environment

Factors	Percentage of choice
Labor cost surge	53%
Fierce competitions created by overproductions	43%
Energy price rise	33%
Rising cost of raw materials	49%
Raising capital	23%
Tax burdens	24%
Appreciation of Renminbi	20%
Reduced tax incentives to export company	5%

[92] Bruce J. Dickson (2010), p.31.
[93] Bruce J. Dickson (2010), p.32.

Source: 2008 the Eight National Private Enterprise Sample Survey Data Analysis and Comprehensive Report

Increased recognition of Business Associations

Private entrepreneurs increasingly perceive the use of business associations. An interview tells us that small business owners had never thought about meeting government officials and having conversations on business before they joined a "*shanghui*" (chamber of commerce).[94] The study of Lu Xueyi also shows that 80.2 percent of private entrepreneurs in China feel that they need to organize "industry associations" (*hangye xiehui*) of "friendship associations" (*lianyihui*). Table 4.6 shows us that private entrepreneurs organize associations to enhance their social status, promote cooperation, and protect property rights.

Table 4.6 Expected Effects of Industry Association and Friendship Association

Expected Effects	Percentage of choice
Enhancing social status of private entrepreneurs	55.3%
Promoting cooperation in business activities	44.3%
Protecting property rights	42.9%
Voicing the opinions of private entrepreneurs to the party committees and local governments	42.2%
Promoting communication among private entrepreneurs	22.0%
Increasing influences in local community	21.5%
Rule-making	17.3%
Helping out overseas operations of private enterprises	7.9%

Source: Lu Xueyi (2002), p.222.

[94] Ji Yong Lee, "Varieties of Marketization in China: The Impact of Private Entrepreneurs, Local Governments, and State-Owned Enterprises" PhD dissertation New York: University at Albany (UMI Number 3366119), p.58.

In addition, 68.1 percent of private entrepreneurs have joined the All-China Federation of Industry and Commerce (ACFIC), while they strongly require ACFIC to represent the interests of its members and protect their property rights.

Table 4.7 Expectations of Private Entrepreneurs for ACFIC

Expectations	Percentage of choice
To represent interests of industry and protect lawful rights	82.7%
To foster communication between entrepreneurs and related government agencies	65.7%
To coordinate business behaviors among entrepreneurs.	52.7%
Rule-making and improving regulations	51.7%
To provide information, advice, and education service	48.3%
To explain government policies	31.1%
To convene investment seminars	20.6%
To host economic seminar	18.7%
To host entrepreneur friendship activities	37.6%
To improve public recognition of enterprises and entrepreneurs	28.5%
To provide legal supports to enterprises	31.5%

Source: The Eight National Private Enterprise Sample Survey Data Analysis and Comprehensive Report

Changing values of "Red Capitalist"

Lu Hanlong asserts that the Chinese private entrepreneurs are in the stage of capital accumulation and have not yet developed their own social identity. He also argues that their considerations are building a good personal and corporate image in daily life, as

they become members of LPC and CPPCC, maintain good relationship with the CCP and government officials, and join the party.[95] However, if these are the characteristics of private entrepreneurs, do "red capitalists," who are former cadres of the CCP and officials of government agencies share these characteristics? Bruce J. Dickson's survey provides answers to this question, saying that when government officials become private entrepreneurs, their values and attitudes toward governmental activities also change.[96]

Formation of a class consciousness

Lu Xueyi describes Chinese private entrepreneurs as being highly interested in their status, especially their political status.[97] This is probably explained by the fact that they do not want to become political victims once again. In a national survey, private entrepreneurs had been asked about their perceived ranks in three statuses: economic, political, and social. As table 4.8 indicates, private entrepreneurs perceive their economic status ranking between 3 and 7 (1-10 scale). They think their political status is moving down the social ladder, while their economic status is moving up. This data is interesting when we compare it with the Chinese social stratification conducted by Chinese scholars, as the next chapter discusses in detail. Private entrepreneurs view their status lower than the perception of scholars, and this implies that they are in general dissatisfied with their current status in Chinese society.

[95] Lu Hanlong, "The Chinese Middle Class and Xiaokang Society." Cheng Li (ed*.). China's Emerging middle Class: Beyond Economic Transformation* (Washington, D.C.: Brookings institution Press 2010), pp.121.
[96] Bruce J. Dickson (2002).
[97] Lu Xueyi (2002), p.223.

Table 4.8 Private Entrepreneurs' Self-evaluation on their economic, political and social status

Rank	Economic status		Political status		Social status	
	The 7th National Survey	The 8th National Survey	The 7th National Survey	The 8th National Survey	The 7th National Survey	The 8th National Survey
1	1.3	1.6	1.5	1.4	1.8	1.5
2	4.2	3.5	5.2	3.5	3.6	4.3
3	9.9	10.7	12.0	10.1	11.9	10.5
4	9.0	13.6	11.3	11.6	12.1	14.4
5	21.2	27.1	26.0	21.6	26.6	25.7
6	15.7	18.6	18.1	15.1	18.7	18.7
7	9.7	10.6	9.4	10.1	10.3	10.3
8	11.8	9.6	9.6	11.7	8.8	8.7
9	7.0	3.1	2.9	7.6	2.3	3.8
10	6.3	1.6	1.0	7.3	0.9	2.1

Source: 2008 The Eights Private Enterprise Sample Survey Data Analysis and Comprehensive Report

As discussed in this chapter, Chinese private entrepreneurs are diverse in their career background, business size, and political network/ attitude. Despite the diversity, they share common goals and challenges as private business owners; they recognize the role of business associations and try to take advantage of them; they own increasingly different values than other social groups; and they form their sense of class consciousness. The evidence provided in this chapter may be considered insufficient to explain the "sense of sameness" and the "sense of distinction." However, despite the limitations of

conducting a national survey in China, I believe this chapter is more than enough to argue that private entrepreneurs share a common identity and class consciousness.

Chapter V

The Emergence of Private Entrepreneurs as a Social Class with Its Political Implications

This chapter unveils the political impact of the emergence of private entrepreneurs as a social class in China. Relating to the studies of Chinese "middle class," we discover the significance of the emerging private entrepreneurs as a part of the middle class in Chinese society.

The first section of this chapter discusses the social stratification and definition of a middle class in Chinese society. Then the second section explores the position of private entrepreneurs in Chinese middle class. This chapter also discusses the political implications of the emerging private entrepreneur class in terms of political development and political democratization.

Definition of Middle Class in Chinese Society

By 1956, the four million private enterprises and small businesses that had existed in China before 1949 had been systematically eliminated. Through continuous

class struggles in Mao's era, the country encountered three social strata including workers, peasants, and an intermediate stratum including intellectuals and cadres.[98]

As Cheng Li introduces, Chinese social scientists began to examine the sudden emergence of rural industrialists in the 1980s. However, they did not use the term "middle class" to describe the newly emerged groups because many of these rural industrialists and urban entrepreneurs came from underprivileged or uneducated social strata. In the mid-1990s, a surge of foreign-based enterprises and the rise of a new class in Chinese society had captured the eyes of Chinese social scientists once again. However, a large uptick of interest in the middle class arose only after the turn of the new millennium when the research on the middle class entered into the mainstream of Chinese social scientists. They used the term "middle stratum" (*zhongjianceng*), "middle-income stratum" (*zhongjian shouru jieceng*), and "middle-income group" (*zhongchan shouru qunti*), rather than "middle class" (*zhongchan jieji*). Afterwards, the Chinese business community promoted the image of the world's largest middle-class market," while the Chinese government decided to enlarge the "middle-income group" (*zhongdeng shouruzhe*) since the 16th Party Congress convened in 2002.[99]

It is difficult to define the middle class in China because many different and conflicting definitions are involved. Specifically, the public image of the middle class is a class that enjoys luxurious lifestyles with expensive cars in large houses, as portrayed in TV dramas. The government's definition of the middle class is the "middle-level-income group." Chinese sociologists focus on a shared class identity and class consciousness, as they usually define the middle class based on occupational classification, employment

[98] Cheng Li, "Introduction: The rise of the Middle Class in the Middle Kingdom." Cheng Li (ed*.). China's Emerging middle Class: Beyond Economic Transformation* (Washington, D.C.: Brookings institution Press 2010), pp.7.
[99] Cheng Li (2010), pp .7-11.

status, education, income, or consumption. However, huge disparities clash among sociologists in terms of estimating the size of the middle class.[100]

Zhou Xiaohong identifies the contemporary Chinese middle class: (1) newly emerged private entrepreneurs and CEOs of township and village enterprises (TVEs) since 1978; (2) small business owners and individual household entrepreneurs created since 1978; (3) cadres of the party and the government, intellectuals, and CEOs of state-owned enterprises (SOEs); (4) Chinese high-ranking officials working in foreign-owned enterprises (FOEs); (5) managers of enterprises and social organizations with degrees of MBA, MPA, or Master of Laws; and (6) professionals with high-income jobs who returned from their study abroad.[101]

Let us deepen this discussion by comparing numbers that scholars have calculated. Chunling Li suggests four social groups of the middle class. One group is composed of the private entrepreneurs that some refer to as the capitalist class, occupying 0.6 percent of urban population. Another group is the "new middle class" which consists of professionals, managers, and government officials, occupying 18.8 percent. A third group is known as the "old middle class" composed of small employers, small business owners, and the self-employed, occupying 19.6 percent. The fourth group is the marginal middle class, which consists of low-wage white-collar and other workers, occupying 25.4 percent of the urban population. According to his criterion, the Chinese middle class occupies 60 percent of the urban populations and 30 percent of the national population. If we use a stricter definition of the middle class—new middle class and the capitalist

[100] Chunling Li, "Characterizing China's Middle Class" Cheng Li (ed.). *China's Emerging middle Class: Beyond Economic Transformation* (Washington, D.C.: Brookings institution Press, 2010), pp.139~142.
[101] Zhou Xiaohong (2005), pp.5-7.

class—this group accounts for 18 percent of the urban population and 9 percent of the national population.[102]

Lu Xueyi classifies the Chinese middle class into four categories. The first group is known as the small business owners and individual entrepreneurs who occupy 6.43 percent of the employed population (73.74 million). The second group is composed of former cadres and intellectuals who engage in diverse jobs, but maintain their social status. The third group is composed of 34.09 million people of CEOs and staff of private entrepreneurs and TVEs, who account for 4.62 percent of the employed population. Investors are 6.23 million people occupying less than 1%. The fourth group consists of highly educated technicians and engineers who work at the foreign-owned enterprises in Hong Kong, Macau, and Taiwan-based companies. They account for 0.98 percent of the employed population. As a whole, the Chinese middle class occupies 15 percent of the national population.[103]

Bruce J. Dickson defines the middle class in a way that includes white-collar professionals, managers, and private entrepreneurs; those with at least a high school education; those with incomes well above the poverty line, so that the basic necessities of life are not in question; and those with modern lifestyles. China's middle class, although less than 25 percent of the population, is growing.[104]

Jie Chen's survey shows that 23 percent of respondents belonged to the middle class. In the survey, Chen defines the middle class in three occupational groups: managers, professionals, and white-collar office workers. She also argues that 60 percent

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[102] Chunling Li (2010), pp.143-146.
[103] Lu, Xueyi (2004). pp. 5; 277-278.
[104] Bruce J. Dickson. "China's Cooperative Capitalists" in Cheng Li (ed.) *China's Emerging middle Class: Beyond Economic Transformation*. Washington, D.C.: Brookings institution Press.2010), p. 292.

of the middle class are workers of the state organizations. She suspects that because her survey has been mainly conducted in the urban area, the percentage of middle class in her survey (23%) comes out higher than that in the survey of Lu Xueyi (15%).[105] As earlier mentioned, a diverse survey data do not make it easier for scholars to define the middle class in China.

There are diverse views on the political attitudes of China's new middle class. Fist, Chinese scholars think that the diverse backgrounds of Chinese middle class make them have multiple identities. They pursue social stability, aim for leadership in market economy, create social norms, and absorb the political tensions and conflicts.

According to the Jie Chen's analysis, while most members of the middle class are in favor of the individual rights that are typically protected in a democratic system, they shun certain political liberties such as the freedom of assembly. Also, they are not interested in democratic elections and participation in government affairs and politics. They ignore local elections in favor of engaging directly in contacting and petitioning activities. Therefore, she argues, China's middle class is not likely to serve as an agent of democratization.[106]

Other scholars point out that the values and attitudes of China's middle class may confront the mainstream social consciousness. Living in highly populated urban cities, Chinese middle class complains about housing, unemployment, and pollution. They actively participate in social organizational activities. Hu Lianhe and Hu Angang argue that in China, as in any other country, the political function of the middle class is multiple and malleable. It can be a "stabilizing device" (wendingqi), a "subversive device" (dianfuqi), or an "alienation device" (yihuaqi). That means, for whatever reason or under

[105] Jie Chen. 2010. "Attitude toward Democracy and the Political Behavior of China's Middle Class." Cheng li(ed.). *China's Emerging middle Class: Beyond Economic Transformation.* (Washington, D.C.: Brookings Institution Press), p. 338.
[106] Jie Chen (2010), p.353.

whatever circumstances the middle class will move from one role to another. Therefore, Chinese authorities need to prevent economic fluctuations, protect property rights, allow more institutionalized political participation, and shield middle class members from excessive political attention.[107]

To sum up, although there are diverse views on the definition of Chinese middle class and their political attitude, scholars generally agree that the Chinese middle class is composed of three or more groups, while their class consciousness are still rare. They increasingly have complaints about social problems; nevertheless, their attitudes have not yet affected the stability of Chinese society. In the next section, we discuss in detail the position of private entrepreneurs of the Chinese middle class.

Are Private Entrepreneurs in China's Middle Class the Core Part of the Middle Class?

Many scholars of the Chinese middle class view private entrepreneurs as the core part of China's middle class. Lu Xueyi argues that Chinese private entrepreneurs are "the core group of middle class" (*zhongjian jieceng de gugan qunti*).[108] Lu Hanlong also explains that the Chinese private entrepreneur class is the core part of China's middle class, together with the knowledge service class.[109] However, as we compare definitions of the Chinese middle class, it was noticeable that private entrepreneurs were not a majority group in Chinese middle class. As table 5.1 shows, private entrepreneurs account for only 0.6 percent in the urban population.

[107] Cheng Li (2010), p.77.
[108] Lu, Xueyi (2004), p.283.
[109] Lu, Hanlong (2010), p.120.

Table 5.1 Share of the Four Subclasses of the Middle Class, Urban China

Year	Capitalist	New middle	Old middle	Marginal middle	Working
1982	0.0	13.9	0.1	19.7	66.3
1988	0.1	17.2	3.2	23.8	55.7
1990	0.5	19.6	2.2	19.9	57.8
1995	0.6	22.1	5.5	26.6	45.2
2001	1.5	16.6	10.3	33.2	38.4
2002	1.1	23.6	11.1	29.1	35.1
2005	1.6	21.0	9.7	31.4	36.3
2006	0.6	18.8	19.6	25.4	35.7

Source: Chunling Li (2010), p.146.

According to Chunling Li, most of the public do not think the "old middle class" (small employers, small business owners, and the self-employed) and the "marginal middle class" (low-wage white-collar and other workers) count as Chinese middle class, while sociologists consider them to exist between the working class and the typical middle class.[110] Even if we count them as middle class, capitalists are too small in number to be regarded as a representative group of the middle class. "New middle class" (professionals, managers, and government officials) has an absolute majority in Chinese middle class.

A study of Chinese Academy of Social Science has identified China's social classes in detail. Chinese society has been stratified according to three types of resources: "organizational resources" whose owners govern society through the state and the party organizations; "economic resources" that are related to the ownership of means of

[110] Chunling Li (2010), pp.143-144.

production; and "cultural resources" that are connected to knowledge and technology.[111] (see figure 5.1)

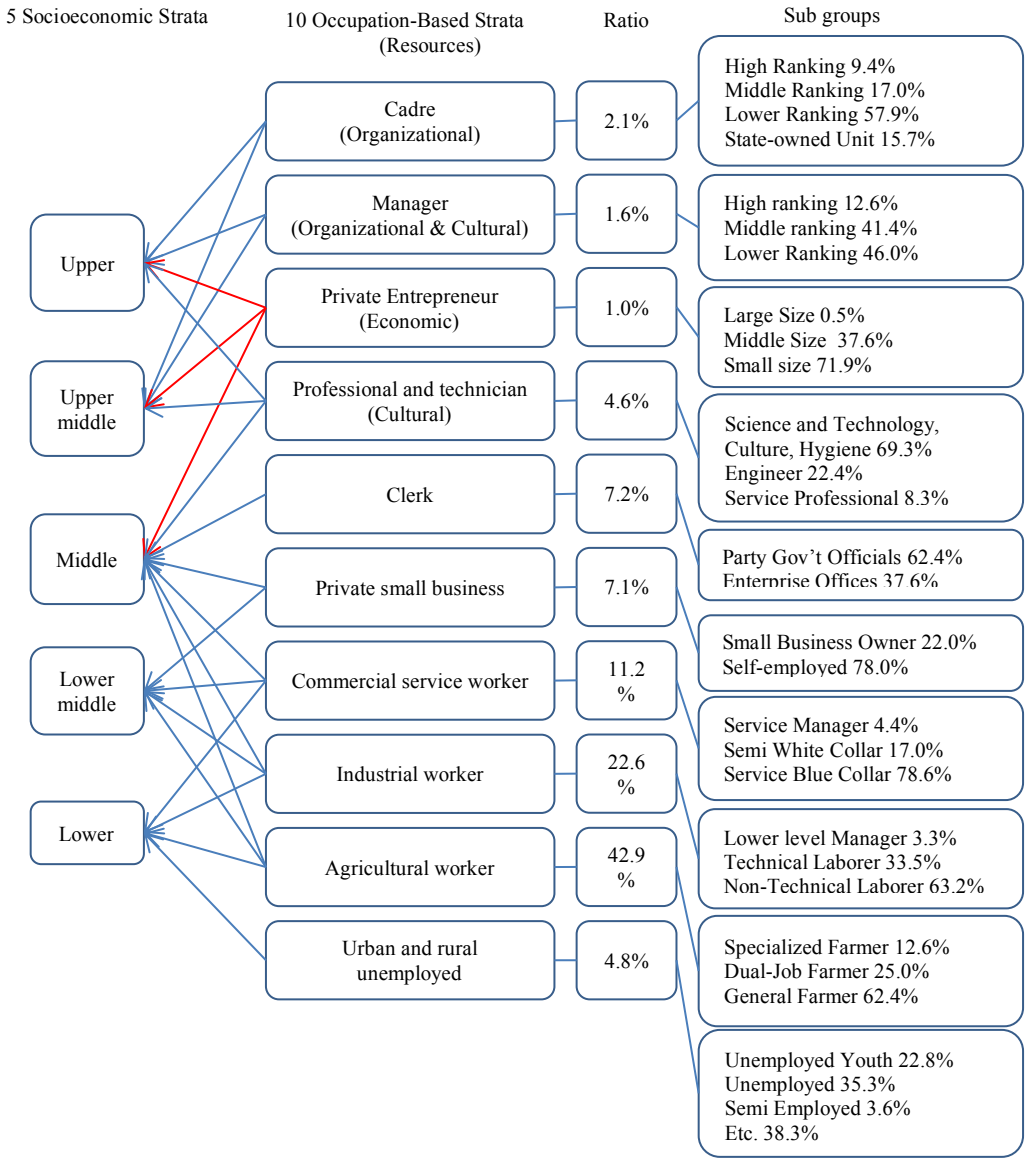
According to the occupation-based strata in the figure, Chinese private entrepreneurs own the economic resources and are positioned in the third rank, following cadres with organizational resources and managers of SOE with cultural resources and organizational resources. In socioeconomic strata, private entrepreneurs are divided into upper, upper middle, and middle strata. When we look at the occupational composition of "middle" strata, it is noticeable that the private entrepreneur is the top among seven occupations that belong to the strata.

Lu Xueyi also argues that China's middle class has "pyramid-shaped structure," which is composed of 18.5 percent of "upper-middle," 36.9 percent of "middle-middle," and 44.5 percent of "lower-middle" groups. The largest group is the lower-middle group where private entrepreneurs do not belong.[112]

Considering the previous discussions, private entrepreneurs are a "minority upper class" in China's middle class. In addition, private entrepreneurs are still alienated by other groups in the middle class because of their low culture levels.[113] In operating businesses, they rely less on information, technology and norms, but more on their intuitions.[114]

[111] Lu, Xueyi (2002), P.9.
[112] Lu, Xueyi (2002), p.264.
[113] 43.6% of CEOs of state-owned enterprises have college degrees, while only 10.3% of private entrepreneurs have. See Lu, Xueyi (2002), pp.267~269.
[114] Lu, Xueyi (2002), pp.267~269.

Figure 5.1 Chinese Social Class Structure



Source: Lu Xueyi (2002); Lu Xueyi (2004); Chengli (2010).

Discussions can change depending on how we define the "core part"; however, Chinese private entrepreneurs are not a representative group of China's middle class, at least, in terms of population, social position, and education level. Rather than the sociological definitions of middle class, private entrepreneurs are closer to the public image of the middle class, a class with high-income and luxurious lifestyle.

The entry of private entrepreneurs into the middle class has a great impact on Chinese society. They have accumulated wealth and improved their social status amidst political limitations and social jealousy. In this sense, their emergence has not only affected society but also contributed to its transformation into being more marketized.

Private Entrepreneurs and Political Implications

As a minority upper group in the middle class, is the class of private entrepreneur going to be an agent of democratization? Based on recent studies and discussions made in the previous chapters, the presence of private entrepreneurs in China's political system does not seem like a "harbinger of political democratization."

Private entrepreneurs have grown in the duplicity of social criterion and changing government policies. Every now and then, they have been lauded as the "builders of Chinese socialist modernization," while at other times, they have been criticized as capitalists exploiting the laborers for their personal gain. However, as discussed in chapter III, these private entrepreneurs have been gradually incorporated into power by the state's corporatist strategy and by their self-help efforts that eventually form symbiotic clientelist ties with local governments. As a result, they became conservative, the strongest supporters of the social stability, and the current CCP regime.[115] They thus

[115] Young Nam Cho identifies the CCP's political, administrational, and ideological bases that have buttressed the sole party rule in China. The political base was constructed by attaining the stability of elite politics and forming solid ruling coalitions, and absorbing social organizations.

prefer voicing their opinions and maximizing their interests within the current political system, changing and challenging it.

Chinese private entrepreneurs are forming a class consciousness; however, they fail to make a unified and strong political request yet. Their general requests are represent the continuation of government policy, protection private property rights, improvement of social status, increase in communications with politics, establishment of their associations, and participation to elections for deputies of LPC and CPPCC.[116] They are more interested in business-related issues that correspond with expanding their businesses, fixing poor legal system, and protecting property rights, rather than democratization or elections. Their political participation is also marked by the motive to enhance their social status.

How then will the state-society relations evolve in the future? Jonathan Unger and Anita Chan argue that Chinese corporatism will move from state-corporatism to societal-corporatism.[117] They assert that corporatism is not similar to a political system like democracy, but an institutional mechanism that moves from one type to another. The gradual increase of autonomy in Chinese business associations will gradually transform the Chinese society into the societal-corporatism. However, the autonomy of social organizations does not occur in all sectors of the country. Some industrial organizations were recently transferred to be under the direct control of the government. Moreover, the CCP adapts to the new social demands, as it occasionally loosens the control and dismantles the opposing associations thoroughly. This scenario makes it difficult to predict the future destiny of the Chinese civil society.

The solid ruling coalitions have been achieved by co-opting intellectuals and middle class. The core of co-optation strategy has been focused on the rising private entrepreneurs. See Young Nam Cho. *China in 21 Century* (*yi ship il se gi Jung-guk yi ga neun gil*) (Paju: Nanam, 2009).

[116] Lu, Xueyi (2002), pp.219-222.

[117] Jonathan Unger and Anita Chan (1995), p.52.

Under this situation, the rise of Chinese private entrepreneurs and their associations are significant in a way that influences the growing Chinese political system by being included into the elite group. Moreover, they increasingly have a shared identity as they recognize their common interests and challenges. This makes it possible for them to coalesce for achieving collective interests and challenges. In other words, if one day, the state's policies harm the interests of private entrepreneurs, they can easily work together to change the state's policies. This does not always indicate democratization; but the rule of law, protecting property rights, and stopping corrupted practices.

The recent research of Jie Chen and Bruce J. Dicksons indicates that the support of private entrepreneurs for the regime is highly affected by their subjective values; living standard, government's policy implementation, and corruption level.[118] In other words, if the CCP and the Chinese government fail to sustain their performance in economic growth, policy implementation, and controlling corruption, they can lose the legitimacy and support from the class. However, once they feel the democratic system is better for their interests, they also can coalesce for the change of system, although private entrepreneurs do not demand democratization for now.

Chinese private entrepreneurs are highly interested in enhancing their social status. They feel that their social status is lower than what they expect. This idea is partly due to their comparatively lower education level and sudden accumulation of wealth that have created the "social jealousy" (*hongyanbing*). We can thus predict that they will consummate their capabilities so that their social status corresponds with their future economic standing.

[118] Jie Chen and Bruce J. Dickson (2010), pp.105-121.

Chapter VI

Conclusion

This study intends to answer the question, "Have Chinese private entrepreneurs emerged as the core social class having a shared identity in China's reform era?" This question is divided into three sub-questions: (1) How have private entrepreneurs emerged in China's reform era and what was the role of the state? (2) Do private entrepreneurs in China share a class identity, goals, and challenges? (3) What are the social and political implications behind the rise of private entrepreneurs?

Chinese private entrepreneurs have emerged in three paths. The "individual household entrepreneurs" (*getihu*) have grown into the private entrepreneurs since the early reform era. They have multiplied in the early-1990s through the CCP policy that privatizes the small and inefficient state-owned companies. Moreover, they emerged through venture companies in the intelligence technology sector that boomed in the mid-1990s. This process of emergence could have enabled them to establish special relationships with the party state. As a class, they formed the "state-corporatist relationship" with the state with the state's strategy co-opting and controlling the emerging entrepreneurs. As individuals, they formed the "clientelist relationships" with local governments that characterized them by diverse symbiotic networks. Through these relationships, they became "embedded" in the party state and included in the elite group.

Although composed of diverse groups characterized by different occupational backgrounds, size of businesses, as well as political networks and attitudes, the Chinese

private entrepreneurs increasingly have a class identity that carries among themselves common goals and challenges as business owners in China. The sense of sameness and distinction has oriented the Chinese private entrepreneurs to observe class consciousness.

The Chinese private entrepreneurs are not a representative group of the Chinese middle class in terms of population, social position, and education level. They are small in number and are positioned upper level in the middle class. They are sometimes alienated by other groups in middle class due to their uncultured characteristics. Their being embedded in the party state renders them unlikely to become agents of democratization. However, their political attitude and actions can be the key in determining the future stability of the political regime. They possibly coalesce for their common interests such as more institutionalized regulations, more freed market, rule of law, and protection of private property. These provide some political implications in that private entrepreneurs can change their supportive attitude toward the CCP when it loses their source of legitimacy based on economic performance.

Despite some of the contributions that this study has made, limitations abound and as such, further studies should be made to address them accordingly. In the process of finding a shared class identity of private entrepreneurs, this study is unable to suggest the exclusive characteristics of private entrepreneur class from other classes such as farmers, cadres, and intellectuals. This study also relied on the existing sample survey of private entrepreneurs. I hope that active and further studies accompanied by improved research environments in China could remove the obstacles and thus achieve in-depth research in the near future.

Appendix: Glossary of Chinese Terms

chengbao hetong	承包合同, production responsibility contracts
dai hongmaozi	戴红帽子, wearing a red hat
dingxi	定息, fixed interest
gaige kaifang	改革开放, Reform and Opening
getihu	个体户, individual household enterprise
gongsi heying	公私合营, joint private-state enterprises
gufenzhi gongzi	股份制公司, limited liability shareholding corporation
gugong dahu	雇工大户, big employer
guowuyuan	国务院, State Council
jiating lianchan chengbao-zerenzhi	家庭联产承包责任制, house hold contract-responsibility system
jiti suoyouzhi	集体所有制, collective ownership
kan yi kan	看一看, wait and see
nanxun jianghua	南巡讲话, Deng Xiaoping's southern tour talk
pibao gongsi	皮包公司, suitcase companies
qiye fa	企业法, Company Law
quanmin suoyouzhi	全民所有制, ownership by the whole people
renmin ribao	人民日报, People's Daily
renmin gongshe	人民公社, people's commune
shehui zhuyi sanda gaizao	社会主义三大改造, socialist transformation of agriculture, handicraft industry, and the capitalist industry and commerce
sange daibiao	三个代表, Three Represents
shedui qiye	社队企业, commune and brigades enterprise
siying qiye	私营企业, private enterprise
tiefanwan	铁饭碗, iron bowl
waizi qiye	外资企业, foreign-owned enterprise

wuquan fa 无权法, Property Law
xiahai 下海, plunge into the sea
xiafang 下放, sent down to the underdeveloped area
xiangzhen qiye 乡镇企业, township and village enterprise
xingzi xingshe 姓资姓社, debates on socialist development

yishi tongren 一视同仁, equal treatment
zhai mao 摘帽, to take off the hat
zhili zhengdun 治理整顿, rectification and retrenchment
zhuada fangxiao 抓大放小, seize the big and free the small
zichou zijin 自筹资金, self-financing
ziyuan zuhe 自愿组合, voluntary coalescence
zizhujingying 自主经营, self-management
zifu yingkui 自负盈亏, responsible for own loss
zulin zhi 租赁制, lease system

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국문초록

이 연구는 “개혁기 중국의 사영기업가 계층은 공동의 이익을 공유하고 있는 의미 있고 주목할만한 사회계층으로 등장하였는가”의 연구문제에 답하고자 한다, 이를 위해 세 가지 구체적인 문제를 제기하였다. 첫 번째는 “개혁개방 이후 사영기업가는 어떻게 등장하게 되었으며, 이 과정에서 중국 공산당과 정부의 역할은 무엇이었는가”의 문제이며, 두 번째는 “사영기업가들이 중국 사회에서 동일한 정체성을 가진 의미 있는 사회계층으로 등장하였는가”의 문제이며, 세 번째는 중국의 중산층 연구와 연결하여 “사영기업가들의 부상이 갖는 정치적 사회적 함의는 무엇인가”의 문제에 대해 해답을 제시하고자 하였다.

이러한 구체적인 세 가지 문제에 대해 본 논문은 다음과 같이 답하고자 한다. 첫째, 중국의 사영기업가들은 개혁기 자신들의 자생적인 힘과, 국가의 정책적인 지원, 그리고 산업환경의 변화를 통해 급속이 성장하였다. 이렇게 성장한 사영기업가들은 국가와 매우 특별한 관계를 형성하였는데, 국가정책에 의한 포섭과 통제 및 허용하에 국가주도의 조합주의적인 관계를 형성하였으며, 동시에 지방정부와 사영기업가 개인들과의 다양한 상호 공생적 후견인주의적 관계가 형성되었다. 그러나 일부 조합주의와 후견인주의의 범위를 벗어나는 사영기업가들의 집단 행동들도 주목할 만하다.

둘째, 중국의 사영기업가들은 비록 다양한 출신 배경과 소유한 기업의 규모, 그리고 그들의 정치적 네트워크와 태도의 다양성이 존재함에도 불구하고 그들은 사업규모의 확장, 사회적 지위의 제고, 사유재산의 보호 등 공동의 목표를 가지고 있으며, 자금조달, 사업 영역의 제한, 외부 경영환경에 대한 어려움을 공통적으로 가지고 있다. 뿐만 아니라 자신들의 단체의 역할에 대한 인식과 요구 수준이 높아지고 있으며, 그들과 교류하는 지방정부 관료와 추구하는 가치의 정도에 있어 차이를 보인다. 또한 그들은 계층 의식을 형성하고 있으며, 자신들의 지위에 큰 관심을 가지고 있다. 즉, 하나의 사회계층으로서 집단적 정체성을 형성해 가고 있다.

셋째, 중국의 사영기업가 계층은 중산층 내 상위의 소수 집단이며. 이들의 비교적 낮은 교육수준과 사회적인 시기심으로 인해 중국의 중산층 전체를 대변하는 계층이라고 보기 어렵다. 또한 그들의 국가에 배태된 특성으로 인하여 그들을 민주화의 주도세력으로 보기도 어렵다. 그러나 사영기업가들은 공통된 자신들의 이익을 위하여 결합할 가능성이 있으며, 민주화가 아니더라도 국가의 제도화, 사유재산의 보호, 시장개혁 등에 집단적인 영향력을 행사할 가능성이 존재한다, 뿐만 아니라 장기적으로는 (공산당의 업적정당성 등에 문제가 있을 경우) 이들의 정권에 대한 지지적 입장이 변화할 수 있다는 점에서 정치적인 의의가 있으며, 사회적으로는 그들의 지상목표인 사회적 지위제고를 위해 집단적인 노력을 기울일 가능성이 존재한다.

주요어 : 사영기업가, 국가조합주의, 조합주의, 후견인주의, 국가-사회 관계, 중산층, 계층의식, 민주화.

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