China’s New Business Elite and Democratisation

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Abstraksi


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It’s been three decades since economic reform was implemented in People Republic of China. The result has been the achievement of a remarkable economic performance (Wong, 2007). China’s GDP growth in 2005 was 9.9 per cent or 18.23 trillion yuan (US$2.26 trillion). This impressive figure leads to the question of how China has achieved its success on the economic stage. This question has emerged because China is a socialist state controlled by the Communist Party and did not implement a full market economy until 1978. Another consideration needs to be taken into account is the fact that China has the world biggest population, which is spread over a large region. Even so, China has to manage these disadvantages to achieve high economic growth.

China’s economic performance has raised another question among scholars: whether this economy success can bring about a process towards democracy or strengthen the power of Chinese Communist Party (CCP). The experience of other countries, such as Japan, Taiwan and South Korea, where economic success encouraged the emergence of the middle class in these societies

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and this class became the agent of democratic development. The history of European states during the early of nineteenth century showed how the emergence of middle class had followed by the implementation of democracy (Goodman, 1999). As noted above, the question remains, is there any possibility for this process to occur in China? The Tiananmen incident in 1989 has been seen as a critical point for scholars, after which democracy seems to fade away in China. This essay will examine China’s economic triumph and the possibility of the implementation of democracy. In answering this question, it will focus on the emergence of ‘new business elite’ in China, asking ‘are the China’s new business elite a force for democratisation?’

In answering the question above, it is useful to define the new business elite in China. Does this new part of the Chinese society resemble the definition of Western middle class? If they represent as middle class, can these elites bring democracy for China? From here, I shall argue that although the China’s new business elite may resemble the middle class model in Western society, they do not have any initiative to encourage a change in China’s political system. My contention is that Chinese society has different characteristics compared to Western societies and the strong control from one party government constructs a middle class which does not function as an agent for democratisation. Another reason why China’s business elite cannot become a force for democracy is because they have been co-opted by the Party. In other words, since most of them are the Party’s members, China’s new business elites largely conform to the CCP position.

In her book *China’s New Business Elite* (1997) Pearson suggests some qualifications in defining the new business elite in China. She states that ‘the term “business elite” denotes a group defined primarily according to its position in the hierarchy of the economy and its members income, education (primarily formal), and prestige’ (1997, p.6). Furthermore, she articulates that China’s new business class includes the professional and technocratic managers of enterprises who engage in economic reform. This group is also distinguished for the members’ high income and high standard of living. In addition, while most of the members of the new business elites in China are generally equipped with high
levels of education, some of them, particularly those who have ascended to their positions within the PRC, have not achieved a high level of education. This is because their education was disrupted during Cultural Revolution (Pearson, 1997, p.8).

The implementation of economic reform in China under Deng Xiaoping brought a change in the structure of society, particularly the emergence of a new class who enjoyed higher incomes. The opportunity for the creation of private sector economy during the reform had promoted the growing numbers of new entrepreneurs across China. Before the economic reform, the state had controlled the economy, which means most companies and enterprises were owned by the government. After 1978, even though the state still maintained its ownership of some major companies for example in the iron and steel industries, the economy reform had opened the door for private business and also for foreign investment. The opening of several Special Economic Zones (SEZs) created more opportunities for private business; therefore also created the emergence of a market for workers in foreign business sectors and enterprises, and new entrepreneurs (Pearson, 1997).

According to Pearson, the new entrepreneurs along with the managers who work for foreign businesses have taken part in the emergence of the new business elite in China. Pearson highlights that the managers employed by foreign businesses, who can be considered as business elites, is relatively small –not more than 50,000 by the mid of 1990s- and mainly work for Western and Japanese enterprises. Local entrepreneurs have emerged only after the central government endorsed the establishment of private businesses in 1979. During the 1970s, the government only allowed the establishment of small family enterprises (geti), but later on 1988 the government permits for another type of non-state business, namely private (siying) enterprises. The owners of siying enterprises gain much higher income than individual income. And their boldness in taking risks conforms to the Western concept of the entrepreneur (Pearson, 1997).

If we accept Pearson definition of the managers of foreign business and the entrepreneurs as China’s new business elite, the next question is whether those business elites can be referred to as the middle class in Chinese society or do they
represent the emergence of a bourgeoisie? David S.G. Goodman remarks that the emergence of local entrepreneurs can be considered the new middle class in China. However, Goodman argues that there is no middle class in China if refer to the Western’s definition of middle class. Whilst the bourgeoisie and the managers in Europe during the nineteenth century became the agent of change, the entrepreneurs in China cannot fulfil a similar function (Goodman, 2008). The reasons for this will be discussed in the following paragraphs.

In the European experience, the middle class lead the managerial revolutions which brought significant change in society. While if China, as Goodman notes, indeed has a middle class it refers to the consumption level of this group. They cannot be considered drivers of social change. The rich in China have different perceptions regarding the relationship between economy, society and politics from their European counterparts, in which the ruling class influences create a less prominent middle class. Goodman states that ‘identification of middle class behaviour in the contemporary PRC does not necessary entail an equation with earlier middle class in other societies’ (Goodman, 2008, p.24). Furthermore, Goodman emphasises that the new rich in China tends to be ‘the bourgeoisie’ rather than a middle class and less likely to bring about the managerial revolution of the type which happened in Europe in nineteenth century (Goodman, 2008).

If newly emerged entrepreneurs in China cannot be included in the middle class, what is the function of the new business elite? Why can they not become agents for democracy? In explaining this matter, it might be useful to have a brief review the history of the PRC. It is intriguing that Pearson (1997) remarks on the emergence of entrepreneurs and the rich as a ‘new’ business elite. Why she did not just discuss the business elite? The reason is simple: prior to 1978’s economic reform, the persons or groups who owned enterprises did not yet exist (Zhaohui Hong, 2004). Zhaohui Hong also emphasises the term ‘new’ when defining the new Chinese entrepreneurs. By looking from the social, political, economic and historical perspective, he provides a thorough explanation on the ‘new’ concept, as he notes:
‘...the concept of new is essential in the context of the ongoing social, economic, political and cultural changes in Chinese history. Different from the traditional landlords in China’s agrarian economy, this new group represents the unprecedented industrial, commercial and financial forces during the country’s institutional transition from an agrarian society to an industrial one. From a political-economic standpoint, this new phenomenon is one of the hallmarks of a burgeoning private economy denoting the transference from the state ownership to the private sector, thus marking a drastic departure the governmental policy that prohibited private ownership of property from 1949 to 1978. In terms of cultural economics, the NPEs are closely associated with a new commercial culture that values profit and individualism, which has in turn eroded, if not replaced, the traditional Confucian moral standard that emphasized communal interest at the expense of personal comfort. Furthermore, from a historical perspective, this newness specifically refers to a fresh chapter in contemporary Chinese history since the beginning of the Deng Xiaoping era in 1978 as well as the post-Deng age, one that is, needless to say, dramatically different from Mao’s China (1949-1976) and its preceding republican period (1911-1949). Overall, the unique combination of the various socio-economic, political and cultural factors during the reform era has contributed to the emergence and the growth of this particular group of entrepreneurs.’ (Zhaohui Hong, 2004, p.23)

Prior to 1978, all sectors of the economy were under the government’s control. PRC is a one party state of which the CCP has been the central authority since 1948. Being ruled by a communist party, China has not acknowledged the importance of private property as the Western system does. Only after economic reform, when the Party decided to move towards a market economy, have the rich emerged and become elite in society. Even though David Goodman emphasises that this group cannot be considered as the middle class in the Western sense, this group represents a middle class in terms of their wealth and consumptive lifestyle (Goodman, 1999).

Pearson (1997) offers a useful explanation on the state-society relationship in China which may bring further understanding of why its emerging business elite cannot function as a traditional middle class. Refers to the experience of other socialist states where reform has been highlighted by economic and political liberalisation when promoted by the state authority, Pearson argues that those are not applicable in China. She notes that ‘the hallmark of the post-Mao reform strategy has been the intentional decentralisation of economic authority by the
state and the introduction of market mechanisms, but without permission for extensive reforms in the political system, much less democratisation’ (Pearson, 1997, p.21).

Scholars have been interested in exploring the structure of state-society relations in China, as China has a unique type of state-society structure which does not allow its society to have greater power in politics. The grip and control from the Party is too powerful for ordinary citizens to interfere in politics. However, Pearson argues that totalitarianism and pluralism cannot be used to describe the state-society relations in China. She outlines a three option model of state-society relationship in her attempts to find the closest model to explain the state-society relationship in China. First model is the democratisation and civil society models. The democratisation model argues that economic reform will eventually lead to political reform. This model assumes that economic reform will bring the emergence of middle class within the society which then leads to democratisation. The efforts for economic and political liberalisation have implications for the creation of ‘civil society’, in which society gains power separate from the state. However, the conditions to establish this model cannot be found in China. Pearson suggests that although the economic reform brought new economic actors, the new business elite in China in the early 1980s showed little interest in politics. She concludes, therefore, that the assumptions of the democratisation and civil society model where economic reform will lead for democratisation is unlikely occurred in China (Pearson, 1997, p.32).

The second model of state-society relationship offered by Pearson is the clientelism and neo-traditionalism. This model stresses the ‘intertwining of state and society in personal networks’ (Pearson, 1997, p.32). Pearson refers to Jean Oi’s concept of vertical clientelism, which states: ‘in developing countries, where the formal channels for meaningful participation and interest articulation are weak, individuals regularly pursue their interests through the use of informal networks built upon personal ties’ (Oi in Pearson, 1997, p.33). This can explain the personal relations ties (guanxi) in the relations between the state and society in China. Andrew Walder presents a model of communist neo-traditionalism which emphasises the dependence of the workers on the authority of the Party.
According to Walder ‘…authority set an ‘organised dependence’ that has forced Chinese employees to rely on upon personal relationships with cadre-managers and, through them, with the Party-state’ (Waldner in Pearson, 1997, p.34). Pearson suggests that the clientelism and neo-traditionalism from Oi and Walder provide a deep understanding of China’s state-society relations. Even though China has changed enormously from the day Deng set the reforms in motion, the informal clientelism and neo-traditionalism is still an important method used by the Party to preserve their control over the society (Pearson, 1997).

The third model in seeing the state-society relations in China is corporatism and East Asian ‘statism’. Pearson dissects state corporatism, which focuses on the relationship between societal units and the state, to look at the state-society relations in post-Mao China. In this kind of corporatism, the state co-opt social units within society to maintain the state’s influence while also grants these units a degree of autonomy. In post-Mao China, the Party co-opt social institutions such as trade unions. Pearson also suggests that, to some extent, China also represents ‘socialist corporatism where the Party or the state bureaucracy dominated the society’(1997, p.39-40). However, this alone cannot describe the whole story of China’s state-society relations. In China, like other East Asian countries such as Taiwan and South Korea, the state has a strong influence on business. According to Pearson, the link between state and business can be explained by the literature of East Asian ‘statism’. This model illustrates business-government relations where business needs to maintain its links to the state in order to achieve its goals (Pearson, 1997).

Even when utilising these three models, Pearson states that it is difficult to explain the whole range of the state-society relations in post-Mao China. She emphasises, however, that ‘socialist corporatism’ has a close identification with how the state manages its control of Chinese society. The Party still the main actor in China’s politics. The Party’s strategy to co-opt social institutions shows the strong domination of the state over society. Pearson also suggests that clientelism can illustrate the behaviour of economic actors who depend on their links with bureaucracy to conduct business (Pearson, 1997). The Party’s domination on all aspects of China’s society may explain why the emerging
business elites find it difficult to achieve independence from the state. Moreover, Goodman argues that the entrepreneurs seem keen to maintain their relationship with bureaucracy since they gain more benefits from the links (Goodman, 1999).

Related to the relationship between state bureaucracy and business, the economic reforms did indeed bring changes in the structure of Chinese business. Parris suggests that ‘the private sector is now a dynamic and growing sector of the economy that attracts public sector workers, managers, party members, and even college graduates with the promise of personal wealth and apparent independence’ (Parris in Goldman & MacFarquhar, 1999, p.262). The establishment of private businesses creates a more complex economic environment because the state is no longer the major actor. Along with private business in the form of individual household firms (geti hu) and privately owned firms (siying), the government also allows communal industries and state-owned firms which are part of the state sector, to be subdivided into urban collectives, or township and village-owned enterprises (Wedeman, 2002). Haggard and Huang define China’s private sector as the non-state sector. According to them, non-state firms include all collective enterprises, de jure private firms, shareholding enterprises, domestic joint-ownership firms, and foreign-invested enterprises (FIEs). They also argue that some state-owned enterprises which have issued shares on stock exchanges can be included as a part of the non-state sector (Haggard and Huang in Brandt and Rawski, 2008, p.340).

The growth of non-state actors in the economy has affected the domination of state-owned enterprises (SOEs). The level of state ownership in the major industries had declined after the reform following the new policy. However, the state still maintains a high degree of control over the economy. This is because the central government sets up a system where those SOEs under local governments depend on the central government for support (Wedeman, 1999). Wedeman argues that all Chinese firms regardless of ownership generally establish a dependent relationship with the party-state. By creating a tax/profits system, where SOEs should give their profit to the state, it creates a competitive environment where the central governments, the managers, the local government who have shares in SOEs became dependent with each other (Wedeman, 1999).
This intertwining relationship between business and government has been highlighted by the political and economic situation in post-Mao China. The strong control by the state of both state-owned firms and, to a lesser extent, private business has promoted a ‘patron-client’ environment between state and business actors. Wank suggests that ‘patron-client ties are pervasive in the post-Mao economy between entrepreneurs operating private firms and cadres staffing the state’s administrative, distributive and production organs. The burgeoning literature on private business is converging on a view of them as localised exchanges of commercial wealth for bureaucratic power’ (Wank, 1996, p. 820). Since the state still continues to exercise control of the economy, private entrepreneurs find that close links with the bureaucracy brings benefits for their businesses. This reflected in the Chinese term *guanxi*, or personal connections and so ‘Entrepreneurs refer to their ties with officialdom as *guanxi* capital’ (Wank, 1996, p.825). Entrepreneurs are fully aware that if they can maintain a good relationship with the relevant bureaucrats, their businesses will survive. This creates a patron-client structure where the bureaucrats, as the patron, offer access to private business, their clients. Within this system, the patron and the client depend to each other (Wank, 1996). *Guanxi* networks create an environment where the private business is highly dependent on the state.

Other aspects of the dependence of the private business on the state are related to the Party’s strategy of controlling them by co-opting them into the Party, thereby strengthening the connection of the business elite to the Party. By making ‘insiders’, the Party expects that instead of opposing the party, business elites will support the Party’s policies. The CCP also implements corporatism as part of their strategy to embrace new entrepreneurs. Pearson refers to the ideal type of corporatism defined by Philippe Schmitter:

‘corporatism can be defined as a system of interest representation in which the constituent units are organized into a limited number of singular, compulsory, noncompetitive, hierarchically ordered and functionally differentiated categories, recognized or licensed (if not created) by the state and granted a deliberate representational monopoly within their respective categories in exchange for observing certain controls on their selection and articulation of demands and supports’ (Pearson, 1997, p.36).
However, China has a unique style of corporatism. As Jonathan Unger and Anita Chan highlight, China had recognised corporatist models during Mao’s era. This was showed by the establishment of social organisations and associations which represented the authority of the state, even though at that time those organisations did not fully function as corporatist entities. During the 1980s, more proto-corporatist organisations had been established to be the intermediaries and agents of the state (Unger & Chan, 1995).

The adoption of this system has allowed the Party to maintain its power through the corporatist organisations. For example, the CCP has representative in most firms, associations and organizations. Jianjun (2007a) finds it difficult to see associations in China as being fully independent from the state. This is because in 1989 the state introduced the Management Regulations on the Registration of Social Organisations, which require every social organisation to be officially registered via the Civil Affairs Bureau (Jianjun, 2007a). These regulations have been also applied to entrepreneurs associations across China. As a result, even though some local and regional entrepreneurs association may have a degree of autonomy, the strong controls from the central government have deprived these associations of their independence. It is, therefore, hard for entrepreneurs in China to have real autonomy and independence from the state control.

Dickson argues that the Party’s strategy to co-opt the emerging entrepreneurs and skilled expertise is an attempt to adapt with the changes created by economic reform (Dickson, 2000). The CCP is fully aware that the emergence of a business elite is indeed an important change which should be not ignored by the Party. In the aftermath of Tiananmen, the Party realised that they need to maintain their legitimacy with the Chinese population. As Dickson notes the CCP decided to adopt two strategies in dealing with these changes. They are, firstly, the cooptation of new members and, secondly, the creation of new links with outside organisations. Dickson argues that this explains the increased interest by the CCP in recruiting members who would have been unacceptable prior to 1978 (Dickson, 2000).
Dickson provides some interesting statistical data on how successful the co-optation strategy implemented by the Party has been, particularly regarding entrepreneurs.

‘The State Industrial and Commercial Administrative and Management Bureau reported that 15 percent of owners of private firms were party members. ... At the end of 1992, over 200,000 party members reportedly registered as private entrepreneurs, representing 4 percent of party members and 8 percent of entrepreneurs. A nationwide survey in 1995 found that 17.1 percent of private entrepreneurs were party members’ (Dickson, 2000, p. 525).

The Party’s decision to co-opt private entrepreneurs had created criticism of the policy within the Party, particularly from the older members, who consider these entrepreneurs to be ‘capitalists’. In spite of this some local party committees continue to recruit entrepreneurs (Dickson, 2000). Dickson argues that this trend will continue because recruiting entrepreneurs brings benefits for both local officials and entrepreneurs. The considerations for the officials in recruiting entrepreneurs are that not only has the Party co-opted a ‘potential opposition’; it is also building links and personal networks with the wealthy entrepreneurs. Whilst for the entrepreneurs, the membership of the Party provides them with larger access for business opportunities (Dickson, 2000).

The clear economic benefits stemming from a close link with the Party has attracted entrepreneurs to become Party members voluntarily. This leads to another explanation for the ‘unusual’ characteristic of the new business elite in China if they are becoming the emerging middle class in Chinese society. Zhaohui suggests that the new private entrepreneurs are aware that being close to the Party brings ‘self-preservation’ and ‘self-protection’. By joining the ruling Party, they obtain protection for their property, social respect, and also, in some cases, protection from the law. In relation to the expectation that the new private entrepreneurs will push for democratisation, Zhaohui argues that most of the China’s private entrepreneurs have little or no interest in political democracy. He emphasises that the tendency of private entrepreneurs to be co-opted by the authorities contrasts with the usual expectations of the middle class as a force for democratisation (Zhaohui, 2004). Evidence in China shows that this new
emerging group are comfortable with a status quo where the Party has virtually full control of the political and social aspects of the nation.

Furthermore, Pearson offers a pattern of political behaviour on the part of the new business elites in China. Similar to other developing countries, particularly in East Asia, the business elites in China are less ‘revolutionary’ rather than the students and intellectuals. This group prefers to prioritise their business. Unlike others East Asian countries, however, where the business elites use lobbying in an attempt to influence their governments, the Chinese business elites remain relatively politically inactive because of their strong links to the status quo. As Pearson notes ‘…the pervasiveness of clientelism suggests strongly that the new business elite does not represent an emerging civil society’ (Pearson, 1997, p.101).

The dependence on personal ties (guanxi) with the authorities is an important factor in understanding the political behaviour of the China’s business elites. The practice on giving gifts, favours and monetary bribes between business people and government officials, especially at a local level, has become a common and ‘acceptable’ practice in business-government relations in China. According to Pearson, the business elite in China show no attempts at using this leverage to influence the government policy beyond what is most likely to strengthen their close relationship with the officials and bring success for their businesses. This is a direct contrast to predictions that economic reform may encourage political change. Pearson argues that the emerging China’s business elite have not been transformed to be ‘a strong, independent, politically active, democratizing stratum’ (Pearson, 1997, p.115).

Tsai also argues that, based on the unique and unusual political behaviour of the new entrepreneurs, it is unlikely that China’s new capitalists have sufficient interest to engage in politics or demand democracy. As Tsai notes there are evidence that while some of this group may act as ‘assertive’ entrepreneurs - that is, have a degree of desire and ability to confront the state - they show no initiative to be the driver for the transition to democracy. Tsai argues that the entrepreneurs cannot see democracy as having the potential to become an instrument which would fulfil their needs (Tsai, 2005).
Again, the new business elites in China find that they are generally satisfied with the governance system provided by the state. This shows the success of the Party’s strategy in co-opting its emerging business elites. It also becomes evident that the political reform which should have followed the economic reforms will not occurred in China in the near future. Because of this scholars are eager to explore what will happen to China after the economic reform is completed. Jianjun (2007b) argues that democratization will not occur in China with the role of the emerging entrepreneur class. Although based on the rationale that market reform may create constructive social conditions for democracy and the reform may also encourage the emergence of an entrepreneurial class as the social base for democratisation, Juanjun argues that the entrepreneurs pursue their interests (2007b, 442).

The next part will attempt to briefly look at the future of China. The Western countries are always interested in predictions of whether the Chinese can transform themselves from an authoritarian state into democratic society. The 1978 economic reforms are widely considered to be the marketisation process for China’s economy. Jianjun refers to the term marketisation to mean the transition from a planned economy to a market economy (Jianjun, 2007b). Departing from this acknowledgement; if China is going to have a market economy, it is likely to be accompanied by political liberalisation. Scholar, such as Bruce Dickson assumes that this is because in some Eastern Europe countries a market oriented economy was followed by political liberalisation. The problem here is that China has not entered a totally market oriented economy. Indeed, while the central government encourages the establishment of private enterprises and allows the growing foreign direct investments, the CCP is still the single actor controlling the state. The CCP clearly wishes to in power and maintain its position as the legitimate political authority over the people of China (Dickson, 2000).

The 1978 reforms also brought about changes in social structure, such as the emergence of a new class of entrepreneurs. This group has been seen as the emerging middle class in China. Again, there is an expectation in the West that this emerging business class will become the new, dynamic actor in economy who will bring democratisation. This is a direct reflection of what happened in the
Western societies in which the middle class has been an important agent for change. However, this expectation is hardly to be realised in China. Thanks to its strategy of co-opting the new business elite into the Party, the state to maintain its control of the economy. The well-established networks which allow the implementation of personal connections (guanxi) between the business elite and the bureaucrats have created a ‘comfortable’ environment for the entrepreneurs, who, as a result, have no incentive to interfere the state’s policies. The success of the economic reforms gives fuels the legitimacy of the Party. Jianjun argues that if China continues its development, China’s future democratization will be a top-down, guided one (2007b, p.441). Again, the CCP still the dominant actor in China.

Moreover, it can be argued that perhaps PRC does not fit with the Western’s concept of democracy. China can not be judged for not implementing democracy. Indeed, in the early of 1900s China had some experience with democracy, even though these experiments generally met with failure (Nathan, 2000). China has the biggest population in the world, which consists of large numbers of ethnicities and tribes. Its territory covers vast regions. Looking at these demographical and geographical facts, perhaps what China needs is not a democracy. The one party system could still serve as a suitable system for China. The success of a half planned/half market oriented economy may be sufficient reason to argue that China does not need for democracy for now.

In summation, in the near future at least, it is hard to see how a wave of democratisation will occur in China. The strong controls from the Party still dominate the economic and political system. Although the numbers of entrepreneurs are growing toward establishing a larger middle class, the state has generated an environment which does not allow the potential middle class to function as a progressive element in society. Indeed, although the new rich and entrepreneurs can be considered as a middle class related to their wealth and consumption, these groups are reluctant to initiate a change in the China’s political system because of the benefits they derive from it. When considering the question of whether the new business elites can bring about democratisation in China, the answer seems to be less than optimistic. If the Party keeps its current
level of control, it is unlikely that the new business elite can be a force for democracy in China.

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