

WHO CONSENTS TO THE “BEIJING CONSENSUS”? CRONY COMMUNISM IN CHINA

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After three decades of economic reform in China, many observers expect that political change will be the inevitable consequence of ongoing economic development. However, China's current combination of a vibrant economy and Leninist political institutions runs contrary to the “Washington consensus,” which asserts that state intervention is not conducive to economic development, and that economic freedoms require political liberties associated with democracy to flourish. This neo-liberal model has been the cornerstone of international aid and lending programs for the past two decades. However, China offers an alternative arrangement that may be appealing to a variety of developing countries. The “Beijing consensus” suggests that rapid economic development requires active leadership by political elites committed to growth and that authoritarian rule is necessary to sustain these pro-growth policies and limit demands for greater equity and social welfare. The “Beijing consensus” therefore is antithetical to the “Washington consensus” and has so far defied the logic that economic development inevitably leads to political change. Rather than conform to neo-liberal orthodoxy or predictions of regime change, China's leaders are committed to promoting economic growth by integrating wealth and power.

The expectation that economic reform in general and privatization in particular is leading to democratization in China is based on two assumptions. First, the CCP is a passive actor, unaware of the social changes that are accompanying economic modernization and unable to adapt itself to these new circumstances. Second, China's capitalists are inherently pro-democratic. Both of these assumptions are faulty, and the predictions based on them equally shaky.

Rather than a passive actor, the CCP has been the primary agent of economic and social change, and has been to be far more adaptable than most observers have anticipated.¹ In the course of promoting its policies of economic reform and opening (*gaige kaifang*), it has actively embraced the private sector in a variety of ways.² Throughout the reform period, its support for the private sector has grown significantly. Rhetorically, it has pledged to “support, encourage and guide” the private sector.³ This pledge – with increasingly strong language – has been a part of the Chinese constitution since 1988. In addition, it amended the state constitution in 2004 to protect private property, and enacted a property rights law in 2007 to codify this commitment. Ideologically, the CCP has evolved from seeing private entrepreneurs as a potential threat to its existence to embracing them as a key source of support. In 1989, soon after the violent end of popular demonstrations in Tiananmen Square and throughout the country, the CCP banned the recruitment of capitalists into the CCP, viewing them as using “illegal methods to seek huge profits and thereby create great social disparity and contribute to discontent among the public.”⁴ But during the 1990s and to the present, the CCP came to see the private sector as the main source of new economic growth, job creation, and tax revenue. Rather than viewing private

¹ Recent scholarship on the adaptability of the CCP includes Andrew Nathan, “Authoritarian Resilience,” *Journal of Democracy*, vol. 14, no. 1 (January 2003), pp. 6-17; Kjeld Erik Brodsgaard and Zheng Yongnian, eds., *Bringing the Party Back In: How China Is Governed* (Singapore: Eastern Universities Press, 2004); Cheng Li, “The New Bipartisanship within the Chinese Communist Party,” *Orbis*, vol. 49, no. 3 (summer 2005), pp. 387-400; and David Shambaugh, *China’s Communist Party: Atrophy and Adaptation* (Berkeley and Washington, DC: University of California Press and Woodrow Wilson Center Press, 2008).

² The discussion that follows is based on the more detailed analysis in *Wealth into Power: The Communist Party’s Embrace of China’s Private Sector* (New York: Cambridge University Press, 2008). Related coverage of these issues can be found in Kellee Tsai, *Capitalism without Democracy: The Private Sector in Contemporary China* (Ithaca: Cornell University Press, 2007), and Yasheng Huang, *Capitalism with Chinese Characteristics: Entrepreneurship and the State* (New York: Cambridge University Press, 2008).

³ This new policy was announced in the communiqué of Fifth Plenum of the 15th Central Committee of the CCP; see Xinhua, October 11, 2000.

⁴ Guowuyuan, “Guanyu dali jiaqiang chengxiang geti gongshanghu he siying qiye shuishou zhengguan gongzuo de jueding,” *Guowuyuan Gongbao* no. 16 (September 20, 1989), pp. 626-629; quoted in Susan H. Whiting, *Power and Wealth in Rural China: The Political Economy of Institutional Change* (New York: Cambridge University Press, 2001), p. 137.

entrepreneurs as class enemies, the CCP embraced them as partners. In Jiang Zemin's theory of the "Three Represents," entrepreneurs were elevated to the first of the groups the CCP claimed to represent. With this justification, the CCP has not only encouraged its members to go into the private sector, it has co-opted private entrepreneurs into the party. Institutionally, the CCP has created a variety of links with the private sector, including a dense variety of business associations (some affiliated with the CCP, others organized by capitalists themselves). These allow the CCP to monitor the private sector, and also allow entrepreneurs to interact with and even lobby the government. A second type of institutional link is the network of party organizations that have been created in private firms. This is one of the CCP's traditional means of linking itself to society, and has been an increasingly common occurrence in the private sector over the past decade.

One of the more remarkable aspects of China's privatization has been that the rapid expansion of the private sector and the accompanying political support for it has come without discernible pressure from the capitalists themselves. The CCP has initiated economic reforms that have benefited the private sector, but did so as a means of boosting economic development and standards of living in general, not to satisfy the specific interests of China's capitalists.

Expectations that privatization will lead to democratization are also based on the assumption that China's capitalists naturally hold pro-democratic beliefs and would prefer a more democratic polity than the current regime. This assumption is derived by the European experience, where urban capitalists were the primary agents of democratic change. In Barrington Moore's famous hypothesis, "no bourgeois, no democracy": where the urban bourgeoisie in Europe sought political rights and representative institutions in order to protect their economic interests, democracy gradually emerged; but in the absence of a dominant class of urban property

owners, the consequence was authoritarian regimes, either fascist or communist.⁵ This observation influenced subsequent thinking: capitalists would tend to seek democratic institutions to protect their economic interests. But in late developing countries, there has been far more cooperation between the state and big business than was the case in the early developers in Europe.⁶ Capitalists do not always need to demand democracy to defend their interests; instead, they develop cooperative relations with the state in order to achieve the same goal. This cooperation is in part based on shared interests of promoting economic development. But it is also based in part on shared identities: political and economic elites often have family ties and come from similar social and professional backgrounds.

In China as in other developing countries, the state and business are closely intertwined. Their shared identities and common interests create support for the political status quo. China's entrepreneurs have been the main beneficiaries of the CCP's economic reform policies and have little incentive to prefer democracy as an alternative regime. Political change would introduce political uncertainty that could easily be detrimental to their economic interests. They could lose their preferential access to officials and consequently find that the current pro-growth policies would be replaced by more populist policies that benefit society at large but negatively impact the capitalists' potential for growth and profits. Rather than be locked in a confrontational relationship with the state that requires democratic institutions to resolve, China's capitalists and party and government officials have developed a stable set of relationships that I refer to as "crony communism." Like the more familiar and more common "crony capitalism," crony

⁵ Barrington Moore, *Social Origins Of Dictatorship and Democracy: Lord and Peasant in the Making of the Modern World* (Boston: Beacon Press, 1966).

⁶ Dietrich Rueschemeyer, Evelyne Huber Stephens, and John D. Stephens, *Capitalist Development and Democracy* (Chicago: University of Chicago Press, 1992); Peter Evans, *Embedded Autonomy: States and Industrial Transformation*, Princeton: Princeton University Press, 1995; Meredith Woo-Cumings, ed., *The Developmental State* (Ithaca: Cornell University Press, 1999); Eva Bellin, "Contingent Democrats: Industrialists, Labor, and Democratization in Late-Developing Countries," *World Politics*, vol. 52, no. 2 (January 2000), pp. 175-205.

communism in China is based on the cozy and often corrupt relationship that exists between business and the state. But the way this cozy relationship has developed and evolved is distinctive in China. In the sections below, I will elaborate on the nature of crony communism in China, explain its dynamics, and assess its implications.

CCP Dominated

The first and most basic element of crony communism is that it is dominated by the CCP. In a political system in which the CCP enjoys a monopoly on political organization, this comes as little surprise. But just as the CCP is the central actor in most aspects of politics in China, it is also the center of crony communism.

First of all, as noted above, the CCP initiated economic reforms on its own initiative and without pressure from capitalists. Indeed, at the beginning of the post-Mao reform era, capitalists were for all intents and purposes non-existent in China. The CCP's economic reforms provided a space for the private sector to grow, and over time it became increasingly important, providing most of the new economic growth, jobs, and tax revenue. But most key elements of economic reform – such as the two-track pricing system, the gradual abandonment of central planning, and the restructuring of state-owned enterprises – were initiated by the CCP to produce growth and dynamism into the economy. They were not the consequence of pressure from non-state interest groups.

The main beneficiaries of economic reform have also been CCP members, both local officials and “red capitalists,” private entrepreneurs who are also CCP members. Many red capitalists were already in the CCP before going into business (a group I refer to as *xiahai* capitalists, following the Chinese expression for joining the private sector). They responded to

Deng Xiaoping's call to "take the lead in getting rich," a slogan that implicitly recognized that some individuals and some regions of the country would prosper before the rest. The people who were best positioned to get rich first were those who were well connected to the state, either as local officials, SOE managers, or rank and file party members. They used those connections to open their businesses, obtain capital and foreign investment, and gain access to domestic and foreign markets. In this sense, they were able to turn their political power into personal wealth. Other entrepreneurs were co-opted into the party, turning their wealth into power. Regardless of whether they were in the party before going into business or were co-opted afterward, red capitalists have distinct advantages in business: they tend to operate the largest and most profitable firms (see table 1). Most private entrepreneurs acknowledge that red capitalists have advantages in business, although as the CCP's commitment to the private sector as a whole has grown over time, those advantages may have become less pronounced (see table 2). The protection of private property, development of the legal system, especially concerning business law, and the greater integration of China into the global economy has made capitalists less dependent on the state. Never the less, the smaller scale of firms owned by non-CCP members suggests there remain limits on the expansion and operation of those who are not communist cronies.

Not only do CCP members benefit tremendously from the privatization of the economy, so do their sons and daughters. Whereas the children of first and second generation leaders often followed their fathers into the party, government, and military, children of third and fourth generation leaders have all gone into business (or in the cases of the daughters of Hu Jintao and Wen Jiabao, married prominent businessmen). An internal report (allegedly from the Central Party School) indicated that 90% of China's ultra-wealthy (those with personal fortunes worth

over 100 million yuan) are the children of high ranking officials.⁷ This is an extreme example, but in a larger sense the concentration of wealth in the hands of the people who are politically well-connected is the essence of crony communism. At the same time, public knowledge that the primary beneficiaries of China's rapid economic growth are political insiders threatens to delegitimize the ongoing economic reforms. Not only has rapid growth created growing inequality, but economic wealth and political power are controlled by the same groups of privileged elites.

Decentralized

A second characteristic of crony communism in China is that it is decentralized. Much of the collusion between party and government officials and capitalists occurs at the local level. Unlike the practice of crony capitalism in Southeast Asia, crony communism in China is not dominated by a ruling family or central leaders.⁸ Instead, it involves officials at all levels of the political hierarchy.

The close ties between state and the private sector in China is in part driven by the imperative of producing economic growth. Growth rates are one of the "hard targets" that local officials have to meet in order to be promoted.⁹ This gives them an incentive to cooperate with the private sector, which is the primary source of economic growth. Local officials control approvals of most projects, whether selling off state and collectively owned enterprises or

⁷ Reported in Hong Kong's Singdao Daily on October 19, 2006, available at <http://financenews.sina.com/ausdaily/000-000-107-105/202/2006-10-19/1509124173.shtml> .

⁸ Paul D. Hutchcroft, "Oligarchs and Cronies in the Philippine State: The Politics of Patrimonial Plunder," *World Politics*, vol. 43, no. 3 (April 1991), pp. 414-50; David C. Kang, *Crony Capitalism: Corruption and Development in South Korea and the Philippines* (New York: Cambridge University Press, 2002); Richard Robison and Vedi Hediz, *Reorganising Power in Indonesia: The Politics of Oligarchy in an Age of Markets* (London: RoutledgeCurzon, 2004).

⁹ Kevin J. O'Brien and Lianjiang Li, "Selective Policy Implementation in Rural China," *Comparative Politics*, vol. 31, no. 2 (January 1999), pp. 167-186.

transferring land use rights to developers. This control has given rise to a variety of corrupt transactions. Many firms have been privatized in sweetheart deals in which the local officials sell the firms and their assets at a fraction of their true value, instantly enriching the cronies who buy the firms and the officials who receive bribes and kickbacks for their part in the transaction.¹⁰ In other cases, capitalists provide favors for the family members of local officials as a tacit part of their bargain. They may provide jobs to the children and spouses of officials, pay tuition for private school or even foreign education, and even buy cars or houses for them. Local officials may also have business dealings of their own, either directly owning or operating firms or indirectly involvement in firms owned by family and friends. The incentive for local officials to support the private sector is therefore not just due to a desire for professional advancement, it is also based on immediate material gain.

The benefits of crony communism are enjoyed by officials at all levels of the political hierarchy. Most of the allegations of corruption involve officials at the county level and below. With the exception of a few high profile corruption cases (such as Chen Liangyu and Beijing vice mayor Liu Zhihua), the CCP has mostly targeted lower level officials for punishment. Although most observers believe that this improperly discounts the corrupt behavior of provincial and central level officials, it also acknowledges that officials at all levels are profiting from China's economic development. Put differently, the benefits of crony communism are quite decentralized. The authority to approve projects is not controlled by a handful of top leaders. As a result, officials at all levels have both the incentive and the means to cooperate with the private sector with both legitimate and corrupt interactions.

¹⁰ X.L. Ding, "The Illicit Asset Stripping of Chinese State Firms," *China Journal*, no. 43 (January 2000); Yan Sun, *Corruption and Market in Contemporary China* (Ithaca: Cornell University Press, 2004); Melanie Manion, *Corruption by Design: Building Clean Government in Mainland China and Hong Kong* (Cambridge: Harvard University Press, 2005).

Diffuse

A different aspect of crony communism is based on the structure of China's political economy. Unlike in post-communist Russia, where wealth was concentrated in the hands of a few politically well-connected individual who became known as "oligarchs,"¹¹ China's privatization has not resulted in a similar concentration of wealth. Instead, China's private sector is characterized by a predominance of small and medium scale enterprises. On the one hand, this means that the beneficiaries of economic reform in general and privatization in particular have been widespread. On the other hand, it also means that collective action among capitalists is difficult because their numbers are so large. Firms do engage in extensive lobbying, but primarily over business-related issues, such as setting industrial standards, but not over broader public policy issues.¹²

On a larger scale, there has been no collective action among private business to promote political change. In 1989, a few prominent capitalists (in particular Wan Runnan of Beijing's Stone Group) and many *getihu* (individual owners of very small scale enterprises) offered material support to protestors in Tiananmen Square, but they were the exception not the rule. Most private entrepreneurs were opposed to the goals of the demonstrators, fearing they would disrupt political stability.¹³ After 1989, many of the students who participated in the protest movement maintained their political ideals but chose to pursue them more quietly and indirectly, for example, by providing financial support for academic conferences, research centers, and

¹¹ Joel S. Hellman, "Winners Take All: The Politics of Partial Reform in Postcommunist Transitions," *World Politics*, vol. 50, no. 2 (January 1998), pp. 203-234; David E. Hoffman, *The Oligarchs: Wealth and Power in the New Russia* (New York: PublicAffairs, 2003).

¹² Scott Kennedy, *The Business of Lobbying In China* (Cambridge: Harvard University Press, 2005).

¹³ David L. Wank, *Commodifying Communism: Business, Trust, and Politics in a Chinese City* (New York: Cambridge University Press, 1999).

publications regarding political reform, rule of law, and constitutional government. But again, these pro-democratic capitalists have been in the minority: in a recent survey of private entrepreneurs, only 25 percent engaged in these kinds of activities.¹⁴ The main trend has been for China's capitalists to either support the status quo or remain apolitical. In the absence of more effective organizations, China's capitalists have difficulty engaging in collective action outside the scope of their business activities. The diffuse nature of China's political economy, in particular the large number of small and medium scale enterprises, makes collective action additionally difficult, consequently adding more stability to the crony communist system.

Expansive

Crony communism is also expansive: the number of red capitalists has continued to grow. In 1993, only about 13 percent of private entrepreneurs were party members; by 2007, that figure almost tripled, to 38 percent (see figure 1). This increase occurred for two separate reasons. First, most of the increase in the number of red capitalists has been the result of party members who went into the private sector and the privatization of SOEs. These types of entrepreneurs were already well integrated into the state before going into private business. According to my surveys of relatively large scale firms, red capitalists who were already in the CCP before joining the private sector (i.e., *xiahai* entrepreneurs) have become the largest group of private entrepreneurs (see table 3).

The second source of growth among red capitalists has come through co-optation. Although the recruitment of private entrepreneurs into the CCP was banned after the 1989

¹⁴ Jie Chen and Bruce J. Dickson, "Allies of the State: Democratic Support and Regime Support among China's Private Entrepreneurs," *China Quarterly* (December 2008).

demonstrations, Jiang Zemin's "Three Represents" speech in 2001 legitimized the practice.¹⁵ Initially, the lifting of the ban was expected to lead to surge of new red capitalists, but that did not happen. In part, this outcome was due to the reluctance of local officials to enthusiastically implement the new policy, showing that many in the party continue to resist the inclusion of capitalists into the communist political system; in part also, the lackluster response was due to the capitalists themselves. Many felt that the CCP's support for the private sector had become so pronounced that they could benefit from that support without having to incur the costs of time and inconvenience that party membership entails. Never the less, the number of co-opted red capitalists grew steadily, if slowly, in the years after Jiang's "Three Represents" speech.

In co-opting capitalists, the CCP uses a "grasp the large, release the small" strategy similar to its approach to reforming SOEs: in terms of recruiting private entrepreneurs, the CCP focuses on the largest firms. Co-opted red capitalists on average operate larger firms than non-party members, but not as large as *xiahai* capitalists. Similarly, large firms are more likely to be focus of building new party organizations and recruiting new members from among workers. In integrating capitalists into the political system, the CCP clearly prefers economic elites over small scale operators.

Why do China's capitalists want to join the CCP? In business as in other careers, there is a glass ceiling for those who are not in party. This gives economically and politically ambitious entrepreneurs an incentive to join. According to local officials, the main reason capitalists seek to join the CCP is that they have political aspirations. The CCP directly controls nominations for local people's congresses and appointments to local people's political consultative conferences, and indirectly it also controls candidacy in village elections. In other words, access to China's

¹⁵ For the debate over the propriety of including capitalists into the CCP, see Bruce J. Dickson, *Red Capitalists in China: The Party, Private Entrepreneurs, and Prospects for Political Change* (New York: Cambridge University Press, 2003), pp. 98-107.

political institutions is supply driven, not demand driven.¹⁶ One indicator of this is the breakdown of capitalists in these local institutions. Over time, a greater percentage of people's congress members and village candidates have become *xiahai* red capitalists, whereas the percentage of co-opted and non-red capitalists dropped (see table 4). There are two reasons for this change in distribution. First, the CCP has developed a more systematic strategy for nominations (especially for people's congress elections), and favors the most politically reliable capitalists for these political posts. Second, the benefits of holding village office are quickly maximized and capitalists express less interest in being reelected. Capitalists other than *xiahai* red capitalists may have decided that official village duties are detrimental to business operations, or that other types of political activities are more useful. In both these ways, the CCP's strategy has been to provide political access to those within the crony communist system and to prevent non-cronies from using these official institutions to pursue a political agenda.

Still, a good number of capitalists are not party members and do not want to join the CCP. Many claim that party membership does not matter, that with the CCP's support for the private sector, the benefits of its reform and opening policies are available to all capitalists. In other cases, they claim that they are not qualified for party membership, and they are generally correct: most are over 35 and have less than a high school education, two key criteria for new recruits. For others, the lack of interest in party membership is due to political alienation: those who see the CCP as corrupt, monolithic, and unwilling to grant enough freedom to its members express no interest in joining it.

¹⁶ For an alternative argument, namely that capitalists are motivated to become members of local people's congresses and political consultative conferences in order to strengthen the rule of law and protect that property rights, see Hongbin Li, Lingsheng Meng, and Junsen Zhang, "Why Do Entrepreneurs Enter Politics? Evidence from China," *Economic Inquiry*, vol. 44, no. 3 (July 2006), pp. 559-578.

In contrast, local officials provide different reasons for why many capitalists do not want to join the CCP. First of all, they want to avoid the CCP's scrutiny of their business practices. According to local officials, red capitalists are more law abiding and more honest in paying their taxes. Put differently, they may be under more pressure from the CCP to fulfill their obligations, whereas non-CCP capitalists are less likely to be monitored or caught. In addition, red capitalists are also under more pressure to contribute to charity. Capitalists who do not belong to the CCP, who do not belong to the official business associations (such as the All-China Federation of Industry and Commerce and the Private Enterprise Association), and who do not have party organizations in their firms are less likely to make charitable contributions. Charity work is seen as a key part of party building and the work of business associations, and they definitely target their own members.

In short, party membership is seen by some as detrimental because it imposes new demands on their busy schedules and on their conduct, and by others as a stepping stone to other forms of political participation but not something desirable for its own sake. Crony communism may be an expansive system, but it does not appeal to all capitalists.

Paternalistic

A related aspect of crony communism is that it is paternalistic. Local officials see party building as not only essential for the party's relationship with the private sector, but also necessary to improve the management abilities and business acumen of private firms. The CCP has given more attention to basic party building in recent years, not just in the recruitment of capitalists into the party but also in creating party organizations in private firms and recruiting workers who are employed there (see table 5). Party organizations in private enterprises do not

simply lead political study among party members who work there, more importantly they focus on business issues, such as enhancing quality control and imbuing corporate culture. Officials generally have a low regard for the business acumen of most entrepreneurs in their communities, and see it as their responsibility to make them more efficient and competitive. This viewpoint may be self-serving, but it is not altogether off the mark. The private sector in China is relatively new, and most entrepreneurs did not grow up in the family business or have other relevant experience before going into business. Additional training and attention to basic issues of business management would presumably benefit many of them.

Another aspect of the CCP's paternalism is the opening of party schools to private entrepreneurs. The Central Party School began offering classes for private entrepreneurs in April 2000, and by 2006 over 10,000 entrepreneurs from around the country had attended.¹⁷ Local party schools also began holding similar kinds of classes. While these party school classes included some degree of political education, for the most part they are similar to programs offered by business schools and concentrate on marketing, human resources, accounting, and other practical management issues. In addition, attending the party school allows entrepreneurs to build connections with other officials; this is also a central appeal to the officials who attend other classes at party schools.

Symbiotic

The purpose of CCP's party building activities are not just to monitor and control private sector, thereby preventing a political challenge, equally importantly they are designed to facilitate cooperation between CCP and private sector on their shared goal of promoting economic growth. As a result, another aspect of crony communism is that it is symbiotic. The

¹⁷*South China Morning Post*, April 26, 2006.

cozy relationship between the party and the private sector is mutually beneficial. Both benefit from promoting economic development and privatization. For that reason, private entrepreneurs share similar values with party and government officials on a variety of policy issues. For example, not only are most entrepreneurs and officials satisfied with the pace of economic reform, they have become increasingly satisfied over the years, with nearly 70 percent of both groups believing the pace of reform is “about right” (see table 6).

A more telling example of shared viewpoints concerns the tradeoff between the goals of economic growth and political stability. Promoting growth has been the top priority of the post-Mao period, but has come at the expense of political stability. The number of local protests increased from 32,000 in 1999 to 87,000 in 2005. Many of these protests were the unintended consequences of rapid growth: farmers whose fields were taken away in illegal and corrupt land seizures, workers who were not paid or forced to work in unsafe conditions, laid off and retired workers who did not get the cash payments and insurance protection they were promised, urban residents who were forced to move to make room for new development, and so on. This threat to stability led China’s leaders to more pro-actively address the causes of popular dissatisfaction, as well as to respond quickly when protests did break out.¹⁸ This concern for political order is also reflected in the views of entrepreneurs and officials. With the exception of county-level cadres, most entrepreneurs and local officials put more emphasis on preserving order than on promoting growth. Even among county-level officials, there was a sharp drop over time in the percent who favored growth, although still a majority (see table 7). This shared viewpoint is based on different but complementary interests. For entrepreneurs, political unrest threatens the stability that is most beneficial to their operations. For township and village officials, the main

¹⁸ Bruce J. Dickson, “Beijing’s Ambivalent Reformers,” *Current History*, vol. 103, no. 674 (September 2004), pp. 249-255.

responsibility for maintaining order is theirs. For county officials, economic growth is their main priority, but their commitment to growth has more recently been tempered by the rise of popular protests.

Self-perpetuating

These characteristics of crony communism in China make it self-perpetuating. As the central actor in the political system, the CCP has a clear incentive in maintaining its political monopoly and protecting its cronies. Local officials enjoy a large share of the benefits from the cozy relationship between the state and business, and should be expected to maintain it. The expansive nature of crony communism gives the opportunity for others to be included, and lowers the incentive for them to challenge it. The structure of China's political economy, with its predominance of small and medium scale enterprises, also reduces the likelihood of collective action: the large number of small actors inhibits effective collective action. Above all, the shared interests of the key actors – the private entrepreneurs and party and government officials – also create a strong incentive to maintain a relationship that has proven to be so mutually beneficial.

Potential for Change

Although I have argued that crony communism is likely to remain self-perpetuating, what would cause this to change? First of all, because the capitalists' support for the status quo is largely based on material interests, a decline in the pro-business policies of the CCP would prompt a reconsideration of the capitalists' relationship with the state. This does not seem likely under current circumstances (especially the international economic crisis that began in 2008), but

new leaders or dramatic change in the political environment within China could lead to a change of policy that would be detrimental to business interests.

Second, an increase in the populist policies of the current leaders might also undermine crony communism. The central leaders under Hu Jintao and Wen Jiabao have moderated the pro-growth strategy pursued under Jiang Zemin. They have tried to foster a more balanced pattern of growth so that inland and western provinces do not feel left out of China's modernization. They have attempted to reduce regional inequalities with income subsidies and the elimination of rural taxes. They have adopted labor laws and environmental policies to ameliorate some of the externalities of rapid growth. While adopting these populist measures, they have also maintained the imperative of rapid growth and reliance on the private sector. If the current balance between the elitist strategy of development designed to sustain rapid growth and the populist policies designed to improve equity were to tip in the favor of populism, and therefore the incentives for growth were curtailed, the capitalists would be less likely to lend their unqualified support.

Third, the more a true market economy emerges, the less dependent capitalists will be on the state for their success; accordingly, the less likely they would be to support the status quo.¹⁹ Even now, this process is slowly underway. Private firms are more able to get loans from state banks, even though this is still highly restricted. Stronger legal protection for property rights makes political protection less salient, and while property rights are still weakly and unevenly enforced, the trend has been toward more rather than less protection. The state still tightly controls the ability of Chinese firms to list on domestic and foreign stock exchanges, although this control has loosened of late. As firms become more responsible for their own profitability, and less dependent on favors from the state, the less incentive they will have to nurture the cozy ties with party and government officials that are now required for firms to be successful.

¹⁹ Bellin, "Contingent Democrats."

Fourth, and conversely, a dramatic increase in corruption could also temper the political support of China's capitalists. Much of the rampant corruption in the reform era has been fueled by the business activities of private entrepreneurs, many of whom reportedly set aside a certain portion of a project's cost for bribes and gifts.²⁰ So long as corruption remains limit and accepted as a routine cost of doing business, crony communism is likely to endure. But if the demands of officials become predatory, the political support among capitalists is likely to diminish. Indeed, the experience of other countries suggests that growing dissatisfaction with corrupt officials can cause capitalists to shift their political support away from the incumbent regime.²¹ Such a development is not inconceivable in China.

Finally, crony communism could become the victim of its own success. There are a variety of consequences of privatization that could trigger more intense public resentment. The relationship between the state and business is inherently corrupt, and while this level of corruption is seemingly acceptable to most capitalists, it is a cause of tremendous dissatisfaction among the public at large. The rapid growth of China's economy has also been accompanied by growing inequality. To the extent that the public comes to perceive that China's nouveau riche have attained their prosperity through political ties and not through entrepreneurship and hard work, they will become less willing to accept the unequal distribution of wealth. The growing number of protests against corruption, land grabs, and other aspects of economic development has to date remained very localized and specific, but the potential for more systemic challenges is not out of the question. This would signal the decay of public support for the propriety of the

²⁰ Sun, *Corruption and Market in Contemporary China*.

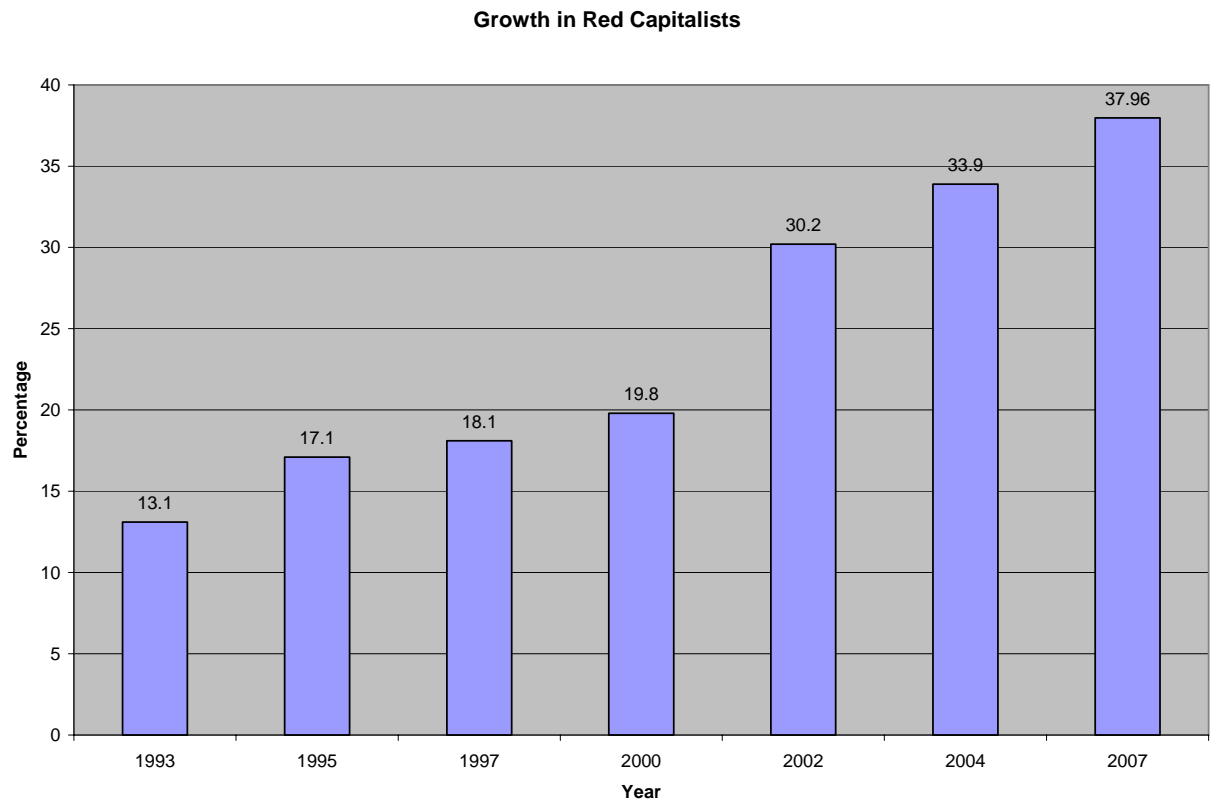
²¹ Stephan Haggard and Robert Kaufman, *The Political Economy of Democratic Transitions* (Princeton: Princeton University Press, 1995).

ongoing policies of economic reform and openness, posing an exogenous threat to crony communism.

CONCLUSION

The CCP has defied predictions that economic reform will lead ultimately to political change. Its economic reforms have unfolded without overt pressure from the people who have benefited the most: the private entrepreneurs. The strong pro-growth and pro-business policies pursued by the CCP over the past three decades of reform have led to the integration of wealth and power in a manner best described as crony communism. This is a key part of the success of the so-called “Beijing consensus” – not just that the state is committed to growth, but that it has willing partners in the private sector. Rather than be a threat to the CCP, private entrepreneurs have become a key source of political support. Moreover, by providing the jobs, growth and tax revenue that the state needs, they are also indirectly a source of the CCP’s popular support and legitimacy. Although the CCP no longer pursues the Marxist goals of a communist utopia and the withering away of the state, it still is a distinctly Leninist party, aggressively enforcing its monopoly on political organization and selectively incorporating new elites into it. Despite the anomaly of capitalists in a communist party, the growing integration of economic and political elites will continue.

Figure 1: Growth in Red Capitalists, 1993-2007



Values for 1993-2004 come from surveys organized by the All-China Federation of Industry and Commerce; data available from the Universities Service Center of the Chinese University of Hong Kong; value for 2007 comes from Jie Chen and Bruce J. Dickson, "Allies of the State: Democratic Support and Regime Support among China's Private Entrepreneurs," *China Quarterly* (December 2008).

Table 1: Size of Firms Owned by CCP Members and Non-CCP Members

| | 1999 | 2005 |
|-----------------------------------|------|------|
| Annual sales (million RMB) | | |
| <u>All entrepreneurs</u> | 3.5 | 12.5 |
| <i>Xiahai</i> entrepreneurs | 5.3 | 18.6 |
| Coopted entrepreneurs | 3.4 | 13.6 |
| Want to join CCP | 3.1 | 7.2 |
| Do not want to join CCP | 2.6 | 8.5 |
| Number of workers | | |
| <u>All entrepreneurs</u> | 41.8 | 74.4 |
| <i>Xiahai</i> entrepreneurs | 75.4 | 95.5 |
| Coopted entrepreneurs | 38.6 | 91.4 |
| Want to join CCP | 27.5 | 55.5 |
| Do not want to join CCP | 28.9 | 54.5 |
| Fixed Assets (million RMB) | | |
| <u>All entrepreneurs</u> | 2.3 | 7.0 |
| <i>Xiahai</i> entrepreneurs | 4.3 | 10.3 |
| Coopted entrepreneurs | 2.1 | 6.7 |
| Want to join CCP | 1.7 | 4.5 |
| Do not want to join CCP | 1.6 | 5.0 |

Source: original survey data

Table 2: Do CCP Members Have Advantages In Business? (percent who agree):

| | <u>1999</u> | <u>2005</u> |
|-----------------------------|-------------|-------------|
| <i>Xiahai</i> entrepreneurs | 37.3 | 57.1 |
| Coopted entrepreneurs | 51.5 | 56.6 |
| Want to join CCP | 59.0 | 58.2 |
| Do not want to join CCP | 32.9 | 26.7 |

Source: original survey data

Table 3: Private Entrepreneurs Relationship with CCP

| | <u>1999</u> | <u>2005</u> |
|-------------------------------|-------------|-------------|
| <i>Xiahai</i> Red Capitalists | 25.1 | 34.1 |
| Coopted Red Capitalists | 13.1 | 15.9 |
| Want to join CCP | 28.2 | 24.9 |
| Don't Want to Join CCP | 33.5 | 25.1 |

Source: original survey data

Table 4: Private Entrepreneurs in Political Posts

| | <u>1999</u> | <u>2005</u> |
|--|-------------|-------------|
| Local People's Congress | | |
| <u>All Entrepreneurs</u> | 11.3 | 10.5 |
| <i>Xiahai</i> entrepreneurs | 19.1 | 18.0 |
| Coopted entrepreneurs | 24.6 | 15.5 |
| Want to join CCP | 5.1 | 3.0 |
| Don't want to join CCP | 5.6 | 4.5 |
| | | |
| Village Chief or Representative Council | | |
| <u>All Entrepreneurs</u> | 16.1 | 13.7 |
| <i>Xiahai</i> entrepreneurs | 22.8 | 20.2 |
| Coopted entrepreneurs | 40.6 | 21.4 |
| Want to join CCP | 10.7 | 10.3 |
| Don't want to join CCP | 6.2 | 3.4 |

Source: original survey data

Table 5: Party Building in the Private Sector, 1999 and 2005

Firms with party organizations (percent):

| | | |
|-----------------------------|-------------|-------------|
| <u>All Entrepreneurs</u> | <u>18.4</u> | <u>28.9</u> |
| <i>Xiahai</i> entrepreneurs | 33.1 | 46.3 |
| Coopted entrepreneurs | 38.5 | 44.1 |
| Want to join CCP | 10.0 | 15.7 |
| Do not want to join CCP | 7.5 | 10.2 |

Firms whose workers have joined CCP in recent years (percent):

| | | |
|-----------------------------|-------------|-------------|
| <u>All Entrepreneurs</u> | <u>24.7</u> | <u>39.5</u> |
| <i>Xiahai</i> entrepreneurs | 36.3 | 55.7 |
| Coopted entrepreneurs | 37.5 | 57.0 |
| Want to join CCP | 20.7 | 32.1 |
| Do not want to join CCP | 15.3 | 14.4 |

Source: original survey data

Table 6: Satisfaction with the Pace of Reform in China
(percentages)

| | Entrepreneurs | | Cadres | |
|-------------------------------------|---------------|------|--------|------|
| | 1999 | 2005 | 1999 | 2005 |
| Pace of economic reform is : | | | | |
| Too fast | 9.7 | 12.5 | 8.9 | 9.4 |
| About right | 58.9 | 70.3 | 60.6 | 68.2 |
| Too slow | 31.4 | 17.2 | 30.5 | 22.4 |

Source: original survey data

Table 7: Preference for Growth over Stability among Cadres and Entrepreneurs
 (percentages for those who prefer growth over stability as top goal)

| | <u>1999</u> | <u>2005</u> |
|-----------------------------|-------------|-------------|
| <u>All Entrepreneurs</u> | 41.7 | 44.6 |
| <i>Xiahai</i> entrepreneurs | 39.1 | 42.9 |
| Coopted entrepreneurs | 29.9 | 47.3 |
| Want to join CCP | 42.1 | 42.1 |
| Don't want to join CCP | 47.9 | 47.5 |
| | | |
| <u>All Cadres</u> | 60.6 | 49.1 |
| County cadres | 76.2 | 59.3 |
| Township/village cadres | 39.6 | 41.6 |

Source: original survey data