



## Sources of social support for China's current political order: The “thick embeddedness” of private capital holders

Christopher A. McNally<sup>a,\*</sup>, Teresa Wright<sup>b</sup>

<sup>a</sup> Politics, Governance, and Security Studies, East-West Center, Honolulu, Hawaii, USA

<sup>b</sup> Department of Political Science, California State University, Long Beach, CA, USA

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### ABSTRACT

In recent years, scholars have puzzled over the fact that China's increased economic privatization and marketization since the early 1990s have not triggered a simultaneous advance in political liberalization. Many have sought to explain why – despite a marked upsurge in popular unrest – sources of social support for the political order have remained sizeable. Seeking to shed light on this debate, this article investigates the nature and implications of the political embeddedness of China's private capital holders. The embeddedness of these individuals is “thick” in the sense that it encompasses an intertwined amalgam of instrumental ties and affective links to the agents and institutions of the party-state. Thick embeddedness therefore incorporates personal links that bind private capital holders to the party-state through connections that are layered with reciprocal affective components. Such close relations work against the potential interest that private capital holders might have in leading or joining efforts to press for fundamental political liberalization. Drawing on these findings, the article places China's economic and political development in comparative perspective, and lays out the most likely scenarios for China's future.

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### Introduction

In recent years, scholars have puzzled over the fact that China's increased economic privatization and marketization since the early 1990s have not triggered a simultaneous advance in political liberalization. Many have sought to explain why – despite a marked upsurge in popular unrest – sources of social support for China's political order have remained sizeable during this period. More broadly, China's experience has been used to reassess the comparative literature on the relationship between economic and political development, and especially the political response of key social sectors to the emergence of capitalism. Among these sectors, private capital holders have been the subject of particular interest.<sup>1</sup> For, contrary to conventional expectations, China's capitalists appear to have little interest in pushing for systemic political reforms, but instead seem to seek to embed themselves in the party-state, thereby perpetuating Chinese Communist Party (CCP) rule.

This article seeks to more fully explain the nature and implications of the political embeddedness of China's private capital holders in the Chinese party-state. To date, most studies have focused on instrumental motivations, arguing that this group has clear incentives to ally itself with the party-state, and equally clear disincentives to oppose it. Without a doubt, these instrumental factors capture a key facet of the political behavior and attitudes of China's private entrepreneurs. At the same time, though, existing work does not sufficiently recognize the “thick” character of private capital holders' political

\* Corresponding author.

<sup>1</sup> In this article, we use the terms “private capital holders,” “private entrepreneurs,” “private business owners” and “capitalists” interchangeably.

embeddedness in the Chinese party-state. As illustrated by case studies drawn from extensive interviews conducted by one of the authors, this “thick embeddedness” is not solely instrumental. Rather, instrumental ties are layered with *guanxi* and kinship ties – personal links that bind this group to the party-state through sentiment and a reciprocal affective component.<sup>2</sup>

In other words, “thick embeddedness” denotes that relations between China’s private business owners and the party-state feature a blend of material interest and benefit, and affective bonds. This affective element encompasses direct kinship ties and/or affective connections mediated by *guanxi* practices. *Guanxi* are reciprocal ties that center on informal and intimate networks of social exchange. *Guanxi* practices derive from China’s Confucian legacy, but have undergone substantial transformation during China’s socialist and post-socialist periods (Yang, 1994, 2002; Lo and Otis, 2003; Hsu, 2005). In the post-1978 period, *guanxi* practices have become broader in scope, forming networks of particularistic ties that are maintained and mobilized for combinations of instrumental and affective purposes (Lo and Otis, 2003; Bian, 2002; Gold et al., 2002).

*Guanxi* practices are an expression of a particular Chinese type of personal network. In it the relationship *per se*, that is, the affectionate/intimate aspect of the transaction comes first or at least is equally seen as an end in and of itself. Relationships are instrumental, but this aspect is layered with affectionate ties and the conscious building of trust (*xinyong*).<sup>3</sup> In short, *guanxi* practices represent “strong ties,” ties that have enabled China’s private capital holders to establish long-term reciprocal personal relationships with the institutions and agents of the party-state.<sup>4</sup> The result: frequent interactions, sentiments of familiarity and trust, and a “we-group” feeling toward each other that have closely aligned the interests of China’s private capital holders with those of the party-state, at least for the time being.

The thick embeddedness of China’s private business owners in the party-state can be elucidated by taking a more concrete look at the empirical evidence that has been uncovered by numerous existing studies. We first turn to an overview of this literature, asking why China has not developed greater social support for political liberalization in the post-1989 period. Following this we synthesize existing studies on the size, shape and nature of China’s private entrepreneurs. Next, we demonstrate the inter-connectedness of instrumental and affective ties between private business owners and the party-state in three case studies that are representative of a larger sample studied by one of the authors.<sup>5</sup> Three cases can hardly produce conclusive evidence and therefore only represent a snapshot of the thick embeddedness of private entrepreneurs in the party-state. Nonetheless, they do provide exploratory indications.<sup>6</sup> We conclude by examining how the thick embeddedness of China’s private capital holders in the party-state might impact China’s political future.

### Why has capitalism not triggered greater social support for systemic political reform in post-1989 China?

Contrary to prevalent expectations, the hastened development of an open and prosperous capitalist economy in China since the early 1990s has been accompanied by few signs of increased political liberalization, and in fact some evidence of greater political constriction. For scholars such as Henry Rowen (2007), what we currently are seeing in China is simply a “lag” between economic and political liberalization, with the former certain to bring the latter in roughly a decade. Many others are not so sanguine. Journalist James Mann (2007), who views Rowen’s optimism as sheer “fantasy,” argues that it ignores the CCP’s ruthless and successful determination to stifle all political opposition, and its stubborn refusal to embrace meaningful political change.

Most scholarship takes a slightly less negative view of China’s political future and sees the CCP’s virtually unchallenged political rule since the early 1990s as a result of crafty adaptation to rapidly changing economic and social circumstances via “authoritarian resilience” (Nathan, 2003), “illiberal adaptation” (Pei, 2007), or “nimble authoritarianism” (Kroeber, 2007). For Bruce Buena de Mesquita and George Downs (2005) the key is that China’s leaders have successfully embraced and encouraged economic freedom while simultaneously restricting political freedom. In a somewhat more hopeful reading of the policies of post-Mao CCP elites, Andrew Nathan (2003) and Dali Yang (2004) argue that significant administrative reform has resulted in a party-state that is much more institutionalized, meritocratic, and responsive to public sentiments and grievances. As a result, the Chinese public simply has had few instrumental incentives to push for more systemic political change.

The debate over China’s political future may be informed by broader comparative findings regarding the general relationship between economic and political development, as well as the more specific connection between capitalism and

<sup>2</sup> Our conception of “thick embeddedness” here parallels Bruce Dickson’s (2008) use of “crony communism,” though we focus more on the fact that *guanxi* practices mediate state–private business ties in contemporary China.

<sup>3</sup> Due to this intertwinement, it is not possible to analytically and operationally differentiate between the affective and instrumental elements of *guanxi* and to independently observe the effects of either instrumental or affective ties in *guanxi* relations. This issue has created some debates in the field, as in Yang (2002) versus Guthrie (2002). Guthrie uses a narrower essentialist cultural formulation, while Yang sees *guanxi* practices as constantly undergoing change and evolving with China’s emergent capitalism. We follow Lo and Otis (2003, p. 135) in viewing *guanxi* as having transformed into a “flexible, ‘modularized,’ and to some extent pluralistic” cultural metaphor. This conception encompasses the fact that while *guanxi* practices have attained highly instrumental roles and strategies in the business sector during the reform period, such practices also encompass reciprocal affective components (Michelson, 2007, p. 355).

<sup>4</sup> On *guanxi* as strong ties see Yang, 1994; Bian, 2002, p. 118; and Yan, 1996.

<sup>5</sup> Interviews were undertaken between 2001 and 2007 in Shanghai, Guangdong, Chongqing and Sichuan. In total, about 120 interviews were conducted covering 20 private enterprises. All interviews were conducted without the aid of translators in either Mandarin or Cantonese and employed a standard set of open-ended questions. Interviewees were assured of utmost confidentiality, and a coding system has been employed to protect their identities.

<sup>6</sup> Given the considerable sensitivities surrounding research on the political proclivities of social groups in China, we employ ethnographic methods. In China’s current context, we believe that in-depth case studies provide the best method of capturing the character and evolution of state–society relations.

democracy. Most major comparative studies find that economic development does indeed increase the probability that a country will become democratic (Boix and Stokes, 2003). However, it also is clear that the relationship between economic development and democracy is not fixed; in particular, it appears stronger in earlier developers than in later developers.

Consequently, scholars have investigated the ways in which “early” versus “late” economic development shapes the political attitudes and behavior of emergent socio-economic classes. In general, most agree that a group’s political attitudes and actions derive from its material interests (Bellin, 2000, p. 177). In Barrington Moore’s (1966) analysis of earlier capitalist developers, the rising capitalist class pushed for democracy as a way to challenge the feudal and/or authoritarian state that was perceived to be hostile to its interests. In Rueschemeyer et al.’s (1992) examination of mostly later developers, the working class was the champion of democratic reform. Yet even so, Rueschemeyer et al. emphasize that the working class has needed allies, especially in late-developing countries with smaller and weaker urban working classes. They note that, historically, other sectors – especially capitalists and intellectuals – whose interests have been harmed by an authoritarian political structure have played this role.

Focusing more explicitly on later developers, Eva Bellin (2000, pp. 186 & 194) argues that the perceived material interests of labor and capital shape their political attitudes. For the capitalist class, dependence on the state and fear of working class inclusion may breed opposition to democracy and support for authoritarian stability. Similarly, when organized labor is dependent on the state and enjoys a privileged status relative to unorganized workers, it may oppose liberal political change as well.

Clearly, the once dominant role of the capitalist class in pushing for political liberalization is reduced in later developers. Lower classes, especially labor and the urban poor, tend to be more important. Nonetheless, business and professional classes continue to play crucial roles in how democratic transitions unfold, since the way in which they align their interests can tip the balance in favor of or in opposition to democratic change (Rueschemeyer et al., 1992).

In China, general features of late development seem to hold true. Popular pressures for liberal political change are mostly lacking, especially among sectors that world-historically have been crucial for such political change, such as private business owners. Rather than representing a source for systemic political reform, China’s private entrepreneurs have shown in the post-Mao period a distinct tendency toward thicker political embeddedness in the party-state.

### Definitions: “Embeddedness”

“Embeddedness” refers to the fact that as individuals and institutions are engaged in ongoing social relations they cannot be understood as independent of one another (Granovetter, 1985, p. 182). Although all institutions and individuals are to some extent embedded in their socio-political environment, some are more embedded than others. “Political embeddedness” refers to the depth and extent of an individual’s or institution’s inter-relationship with the polity. Existing works on political embeddedness tend to focus on the political constraints that shape economic institutions – the embeddedness of economic relations in their political surroundings (Zukin and DiMaggio, 1990, pp. 20–23). Taking a slightly different approach, we contend that the political embeddedness of China’s private entrepreneurs with the agents and institutions of the party-state is characterized by a distinctive “thickness” – private capital holders are not only shaped by the structuring force of the party-state’s power; they are actively engaged in ongoing relations with the party-state and its actors – relations that are characterized by combinations of institutional, instrumental and affective ties that are inescapably linked with each other.

### “Private entrepreneurs”

From a legal standpoint, private businesses in China may be divided into two groups: first are small enterprises with fewer than eight employees—the *getihu*; second are larger enterprises with eight or more employees—private entrepreneurs. *Getihu* typically run firms that involve family members and rely on very limited capital. In general, these entrepreneurs are not prosperous, but rather are situated within China’s lower classes. Thus, in official Chinese government documents *getihu* are not considered “private entrepreneurs” or “private capital holders.”

China’s private entrepreneurs are at the helm of the most dynamic and rapidly growing sector of the economy. Domestic private enterprises account for between one third and one half of China’s GDP, employ more than 100 million people, and, together with foreign-invested private firms, provide an estimated 75 percent of employment growth and 71 percent of Chinese tax revenues (Xiao, 2005; Liu, 2007). Further, China’s private enterprise owners correspond most closely to the categories of “capitalist” and “bourgeois” so often credited with affecting democratic change under capitalism. Should private entrepreneurs come to view China’s current political system as a constraint, they may follow the course of England, where a growing “capitalist class” pressed for liberal democracy.

Yet as the following review of the literature and our three case studies show, China’s private capital holders have not shown signs of acting in the manner of their counterparts in England in the late 17th and early 18th centuries. To the contrary, China’s private entrepreneurs have exhibited a notably “thick” political embeddedness that binds them to the party-state’s agents and institutions. For China’s private entrepreneurs, economic privatization and competitive market pressures—combined with the continued dominance of a Leninist system—have created various imperatives to cultivate *guanxi* relations and more institutionalized forms of embeddedness with the party-state.

## Existing studies

Existing studies of China's private business owners highlight the instrumental nature of their ties to the political establishment. Since there is considerable variation among Chinese private firms depending, among other factors, on their origin, developmental trajectory, geographical location and industrial sector, it is difficult to make sweeping generalizations about the political proclivities of China's private entrepreneurs. Still, across the board, scholars have found that one feature stands out: a general unwillingness to "rock" the boat politically and press for systemic political change. Indeed, most private capital holders display a notable interest in working with the party-state's agents and institutions (Chen, 2008; Dickson, 2003, 2008; Peng and Liu, 2003).

Private entrepreneurs have willingly joined government-sponsored business associations, such as the Private Enterprises' Association and the Industrial and Commercial Federation. These quasi-corporatist organizations are intended both to "maintain state control" over private entrepreneurs and to represent their interests (Dickson, 2003, pp. 24–25). In a 2002–2004 study of rural private entrepreneurs, more than 70 percent were members in at least one government-sponsored association (Alpermann, 2006, p. 46). Moreover, research suggests that medium and large private enterprise owners do not see any incompatibility between the associations' dual functions of state control and member representation. Intriguingly, the more privatized and prosperous a locality is, the higher the likelihood that a private entrepreneur will view him or herself as a partner, not adversary, of the party-state (Dickson, 2003, p. 57).

In addition, private entrepreneurs show great interest in participating in local elections to become part of the local governing structure. In largely "capitalist" Wenzhou, for example, virtually all candidates for village elections are wealthy private entrepreneurs (Zhang, 2007, pp. 427–429). Similarly, surveys from the late 1990s show that over 16 percent of entrepreneurs had been candidates in village elections. Further, among medium and large private enterprise owners who had become Party members, over 40 percent had run in village elections (Dickson, 2003, p. 123).

In fact, a nationwide study conducted in 2000 found that 20 percent of all private entrepreneurs were CCP members (Li, 2001, p. 26), while by 2003 Party membership had climbed to nearly 34 percent (Tsai, 2005, p. 1140). Party membership appears to be particularly prevalent among medium and large private enterprise owners: in surveys from the late 1990s, 40 percent were already Party members, and more than 25 percent of the remainder had been targeted by the CCP and wanted to join (Dickson, 2003, p. 111). By way of comparison, as of 2007, only 5.5 percent of the entire population was a CCP member (Xinhua, 2007). Private entrepreneurs thus are widely believed to comprise the highest percentage of CCP members per capita of any social sector (Li, 2004, p. 33).

Perhaps as a consequence of their increased embeddedness in the Party, private entrepreneurs have become an important force in political advisory and legislative bodies. A 1999 study finds that as of the late 1990s, over 8500 private entrepreneurs belonged to Chinese People's Political Consultative Conferences (CPPCCs) at the county level and above, and 5400 private entrepreneurs belonged to people's congresses at the county level and above (Li, 2003, p. 90).<sup>7</sup> The Zhejiang delegation to the 15th National People's Congress in 2003, for example, included 78 representatives, of which 14 (18 percent) were private entrepreneurs. Overall, a recent study finds that "in some parts of the country, private entrepreneurs already make up a very substantial proportion of the local policy elite" (Yang, 2006, p. 157).

Turning to the motivations underlying this political behavior, most studies of China's private capital holders point to the instrumental nature of their embeddedness, arguing that these individuals seek connections with the party-state in order to maximize their material interests.<sup>8</sup> Fundamental to these attitudes is the perceived economic advantage of Party membership. As Victor Shih concludes: "ties with top leaders can bring substantial advantage in obtaining scarce resources in the system" (Shih, 2004, p. 3).

While the instrumental character of the political embeddedness of China's capital holders is not in doubt, a focus solely on cost-benefit calculations overlooks another key facet – affective ties based on direct kinship and *guanxi* relations. According to a research report by the Chinese Academy of Social Sciences and the State Council Research Office, as of 2003, China had five million individuals with assets of 10 million *yuan* or more. Of these more than 90 percent were from elite families constituting the apex of the CCP's power structure. Only 4.5 percent of these wealthy individuals were rich by virtue of their own efforts (Liu, 2003, p. 75). Similarly, a survey conducted by the State Council's Research Office, the Central Party School, and the Chinese Academy of Social Sciences finds that, of the 3220 individuals with assets above 100 million *yuan* in China, 2932 have close blood relations with prominent CCP elders or leaders. In addition, between 85 percent and 90 percent of the top corporate leaders in Chinese financial, foreign trade, real estate, and construction firms are part of the elite families at the tip of the CCP's power hierarchy (Xinbao, 2007, p. 21).<sup>9</sup>

Conditions at the local level tend to reflect this national situation. David Goodman (2004), for example, reports that many private business owners, when asked why they were not CCP members, responded with a version of: "Why should I join the CCP? I have grown up locally and my (father, mother, or some other relative) was the (village head, county party secretary, or

<sup>7</sup> CPPCCs serve as advisory bodies to the party-state and include CCP members, members of China's other legal political parties, and individuals without a party affiliation. The People's Congresses technically serve as the legislative arms of the state.

<sup>8</sup> It is important to emphasize that existing studies of Chinese private entrepreneurs (e.g., Dickson, 2003, 2008) do not attempt to scientifically demonstrate or "prove" the micro-linkages between private entrepreneurs' instrumental connections to the party-state and their actual support for China's current political order. Similarly, we are not making a scientific causal argument that can be definitively proven or disproven.

<sup>9</sup> We would like to thank Carsten Holz for bringing this to our attention.

some other local position of leadership)” (pp. 159–160). Indeed, Goodman found remarkably few entrepreneurs who either were not themselves CCP members or whose parents had not been members of the Party, often serving as officials of the party-state. Therefore, even if an entrepreneur is not a member of the CCP or a political advisory body, they may possess pre-existing *guanxi* and kinship relations that obfuscate the need for them to enter the Party and embed themselves institutionally with political power brokers.

### Case studies

In-depth interviews conducted by one of the authors reveal in detail the intertwined instrumental and affective connections between private entrepreneurs and the Chinese party-state. Recognizing that owners of private businesses are not a homogenous or united group (Tsai, 2005) and for purposes of space, three case studies have been selected that exemplify the three principal types of private firms in China today. Despite differences in their size, level of success, and particular histories, these three cases illustrate the “thick” political embeddedness of China’s private capital holders.

From the late 1970s to the early 1990s private businesspeople faced a rather uncertain political environment. Since the early 1990s, the atmosphere has improved dramatically. Therefore, differences among private business owners are partially related to the time period in which they entered into business, while variations in their personal (and political) backgrounds are a further salient factor. Among owners of relatively large private enterprises three basic types have been identified (Wank, 1999; Hong, 2004).

#### Type one: Z Chemical Corporation

The first type of large private enterprise owner emerged in reaction to the privatization of public sector enterprises, which picked up steam in the mid-1990s and then gained official support under the policy of *fang xiao* (“let go of the small”) in 1997. This group includes managers of state-owned enterprises and township and village enterprises who became the largest shareholders as these enterprises were transformed into limited liability corporations. Some entrepreneurs also purchased former state firms outright, often facilitated by their ties with local government officials. In most cases, these entrepreneurs gained the assets of the enterprise without being responsible for their debts or for guaranteeing continued employment to former workers (Hong, 2004, pp. 29–30). This group of large private business owners tends to be quite wealthy and has strong connections with the party-state (Hong, 2004, p. 30). Indeed, many of these enterprises have literally “grown out” of the state, benefiting from their prior history under public ownership to generate profits for their new private owners.

The case of Z Chemical Corporation (ZCC), a former township and village enterprise, reflects this dynamic (Informants 102, 109, 123, & 124). ZCC began as a venture between a chemical research institute of a large Chinese province and a village at the outskirts of the provincial capital. The firm was founded in February 1985 as a township and village enterprise 100 percent owned by the village, though with technology and personnel transferred from the research center. By 2003 ZCC focused on manufacturing head gaskets, occupied three acres of factory space, employed more than 160 workers and had about 30 million *yuan* in sales.

As in other parts of China, the collective ownership structure of ZCC underwent reform (*gaizhi*) by implementing a shareholding cooperative structure in 1998. Since ZCC was 100 percent owned by the village, the privatization process was solely managed by the village government. Higher government levels did not interfere because their objective was to get rid of small factories under public ownership. However, the township government one level above the village needed to be persuaded to approve the privatization arrangements; as a result, key officials received gifts and promises of future tax revenues.

A few privileged employees, most of whom were connected to the village government, took control of ZCC in a process of insider privatization. The factory director, who also acted as the village head, gave up his government job to become the full-time chair of the new board of directors of ZCC. Other leaders of the village became members of ZCC’s management team. The new ownership structure therefore included the new chair (former village head) with 30 percent share ownership, the vice-chair (the former village Party secretary) with a bit more than 20 percent of the shares, a niece of the former village head and her husband each with a few percent of the shares, former/present long-term employees (employed prior to 1990) with a bit more than 20 percent of the shares, and a chief engineer from the chemical research institute who had worked at ZCC since its founding with 5 percent.

Even after privatization the controlling shareholders of ZCC have been politically embedded in the local party-state’s structure. Before retiring, the former village head and Party secretary played key roles in appointing the village government’s new leaders. They certainly acted instrumentally in making these appointments, but, simultaneously, ZCC management possesses affective ties to the new leadership, such as long bonds of friendship. In combination, these intertwined instrumental and affective connections have created a feeling of “we-ness” among ZCC’s new owners and the new leaders of the party-state at the village level. The village’s new leaders “owe” ZCC owners a personal debt, and these affective bonds sustain personal trust that overlays and cements their mutual instrumental interests. In the words of the former village head and current ZCC chair, because of their affective *guanxi* ties, the new village leaders “continue to respect us, and we can rely on them.” The former government positions of ZCC’s top management also come in handy when dealing with higher levels of government; while serving in these positions, these individuals formed deep affective and instrumental *guanxi* ties with many officials in the party-state hierarchy. These thick connections have facilitated ZCC’s ability to convince officials from commissions in charge of planning and economic policy to support ZCC’s development plans and funding needs.



The history of ZCC is typical of many privatized township and village enterprises. None of the managers invested a cent of their own money up until privatization. Rather, they used their knowledge, entrepreneurship, personal connections and government positions to access state assets and bank loans, which were used as investment capital. Subsequent to its privatization, ZCC's continued development has been facilitated by its managers' thick embeddedness with the agents and institutions of the local party-state. In sum, ZCC has grown out of the local state and remains linked to it via *guanxi* ties – instrumental, institutional and affective bonds that create sentiments of familiarity and trust.

### Type two: X Real Estate

The second category of large private enterprise owners resembles the first group in some key respects. Both benefited from close political connections, but the second type has not grown directly out of state ownership. Rather, these entrepreneurs have used their embeddedness in the party-state to gain insider information and/or market access, especially during the early phases of reform lasting from the late 1970s through the mid-1990s. For example, many profited from the dual-pricing structure for consumer and some industrial products that was established in 1985, reaping significant rewards from “buying low and selling high.” Similarly, starting in 1987 and lasting in most regions into the late 1990s, much state-owned land was leased to the private sector. This did not occur via a fair and open bidding process; to the contrary, those with close relations with party-state officials typically obtained the land, often at low prices. Subsequently, these real-estate entrepreneurs expanded into finance, construction, advertising and insurance. This second group of large private enterprise owners thus benefited from their privileged backgrounds, including relatively high levels of education and close relations with representatives of the party-state (Hong, 2004, pp. 27–29).

The management of X Real Estate (XRE) is a rather extreme example of this second category (Informants 107, 151, & 157). The key founder, Mr. X, left his government job (*xia hai*) in 1992 and moved to Shenzhen. There he registered a trading company with a partner in Singapore and cultivated a *guanxi* network with several former classmates and colleagues who had started to work in the oil business in Shenzhen. As a result of this network of affective ties with long-term contacts, he invited a large Chinese state-owned oil company to take a 51 percent stake in the Singaporean company's ownership. Mr. X and his partner kept the remaining 49 percent. Next, the trading company established a subsidiary in Shenzhen. Due to the state-owned oil company's majority stake in the trading company, this subsidiary obtained a coveted license to import oil products cheaply and gain the difference between world market prices and higher prices in China – it “bought low and sold high.”

As the China-based company's profits bulged, it started to buy out the shares that the state-owned oil company owned in the Singapore trader. Both mother and daughter enterprises thus transitioned to full private ownership, but still were registered as state-owned entities from the Chinese government's perspective. After policy changes regarding oil imports, both companies exited the oil business and used their capital to set up a real estate development company in a major province in China's interior. Since it was established by a state-owned entity, the new real estate company was also regarded as state-owned; a factor beneficial to doing business in China's politicized real estate market. The result was a paradoxical entity: a privately managed “state-owned” real estate developer – XRE.

When a new land auction policy requiring that all land be sold by open tender began taking effect in the early 2000s, Mr. X and his partner sold a 51 percent stake in their “state-owned” XRE to a state-controlled enterprise (*guojia konggu*) that just had listed on Shanghai's stock market. Again, this transaction could only take place because Mr. X had long-standing *guanxi* with a key official in the listed state-controlled enterprise. As Mr. X put it, “we will use whatever type of ownership structure is favorable to business and provides policy benefits and profit opportunities. At present, the best ownership form is to belong to a listed state corporation, since it gives us greater access to capital and better recognition by the government.” The price for the stake was 90 million *yuan*, all of which Mr. X and his partner pocketed.

The urban district government with which XRE was officially registered as state-owned did not interfere, since XRE had never received any state investment. The district government actually feared that XRE might move its registration to another district and pleaded with it to continue its registration and local tax payments. XRE's new-found status as part of a listed state-controlled corporation improved its opportunities to cultivate *guanxi* with powerful agencies in the local party-state, including the mayor's office, the city's economic commission, and various district governments. As a result, it gained better access to land, investment capital and regulatory approvals. Despite its state-controlled status, however, XRE has remained independent of party and state bodies. Its party committee, of which Mr. X is a member, is not appointed by any outside party body and mainly exists to leave a good impression on party-state officials. Therefore, what started as a rent-seeking opportunity in the oil trade morphed into a major real estate business. XRE is an unadulterated example of private ownership under the protective hat of “state ownership.”

Like ZCC, the case of XRE illustrates how many owners of large private enterprises have profited immensely from close *guanxi* with the party-state. They have reaped large profits either by gaining control of privatized state firms or by utilizing connections to benefit from state policies and investment. These entrepreneurs have had clear instrumental profit-driven incentives to nurture such ties, but via their multi-layered *guanxi* ties they also have drawn on and fostered affective and intimate relations with former subordinates, colleagues, classmates, or acquaintances working in the party-state. Overall, these thick ties have created a “we-group” feeling that has led private entrepreneurs to desire the perpetuation of China's existing political system. As Mr. X put it: “Our most important asset is our *guanxi* with various state entities. We want to be as close to the government as we can and hope that the government will continue to be stable and supportive of companies like us.”

### Type three: T High-tech

The third group of private enterprise owners encompasses entrepreneurs who generally have relied on their skills and savvy to grow businesses. By and large, they have attracted investment capital through the creation of technology-intensive and creative projects, and have not directly profited from their political connections. Most of their firms were founded after China's market economy matured, that is, starting in the mid-1990s (Hong, 2004, pp. 23–42). T High-tech is an example of such a firm (Informants 56, 66, 181, & 182).

Even though private business owners of this type typically have not held formal political posts and have not profited directly from their ties with political officials, many have *guanxi* ties with agents and institutions of the party-state that have facilitated their success. Because China's economy retains Leninist features – relevant to the case of T High-tech, for example, the major telecom providers are all state-controlled, and innovation in the industry has been heavily supported by government agencies – these ties have been extremely helpful, even for companies that have not profited through insider “deals.” For T High-tech, affective connections with relevant government entities and a partly government-owned joint-venture firm have been key in facilitating the firm's success. The overall result is that T High-tech's owners have had an interest in the perpetuation of the political status quo.

After graduating from renowned technical universities and working for government agencies involved in the telecom industry, the founders of T High-tech met in Shanghai while employed at a foreign joint-venture producing telecom equipment during the late 1980s. After the founders had returned to their native city, they started T High-tech in 1993. Due to their education and prior employment, the entrepreneurs possessed strong personal ties to former classmates and colleagues working in the Shanghai foreign telecom equipment supplier and in the sole local state-owned telecom provider. These *guanxi* ties allowed them to act as intermediaries between the foreign supplier and the province's telecom provider, yielding them much needed profits for further investment.

T High-tech was set up in the region's premier industrial high-tech park, a key factor in the company's success. The park management provided good infrastructure, did not discriminate against a small private start-up, and, most importantly, allowed T High-tech to register as a collective enterprise under the park's management bureau. Unofficially, however, T High-tech remained a 50/50 venture between its two founders. In 1998, as China's government encouraged fake collectives to re-register as actual private firms, the two founders decided to convert T High-tech into a limited liability corporation, a process that unfolded smoothly. By the early 2000s, T High-tech was able to penetrate China's national telecom equipment market.

Although the company has not relied on insider “deals,” its owners openly state that the firm's profits have been driven by “*guanxi* sales.” As one owner put it: “Good *guanxi* with China's large telecom providers (all of which are state-controlled) must be cultivated to be successful in this market.” T High-tech owners have engaged in constant communication and have had multiple meetings with the city government's economic commission and, especially, the science and technology bureau. This interaction has been facilitated by mutually-beneficial instrumental incentives as well as pre-existing affective bonds. The most notable example of the intertwined nature of this *guanxi* is that the wife of one of the founders previously was the representative of a large state-owned electronics producer, giving her the opportunity to develop excellent *guanxi* with various local government agencies. She is now handling the public relations of T High-tech. Accordingly, T High-tech has gained considerable access to local government agencies and officials in charge of science and technology development. Moreover, the constant communication between T High-tech representatives and agents of the party-state has deepened the affective aspect of their *guanxi* over time.

In contrast to some high-tech entrepreneurs, the founders of T High-tech have not entered any local people's congresses or CPPCC's. However, their close relations with local government agencies and the large state-controlled telecom providers compensate for the lack of official political positions. In turn, T High-tech's owners have been generally supportive of the political status quo. As the founders remarked, “We do not fear the government at all. They are our partners, especially the industrial high-tech park's management (the park is government-owned and managed).” Indeed, there is now little predatory behavior from government agencies, according to the founders, and the city government has extended substantial support, facilitating T High-tech's development.

T High-tech reflects the great diversity of China's private capital holders. While most large private firms are politically embedded in the party-state, some are more embedded than others. Clearly, T High-tech's owners are less thickly embedded than their counterparts in ZCC and XRE. The latter two possess deep institutional and affective ties to power-holders in the party-state. Even so, T High-tech's success has been facilitated by its intertwined affective and instrumental connections to science and technology agencies and large state-owned telecom providers. High-tech entrepreneurs have been given access to the Chinese party-state and, as a result, have nurtured *guanxi* ties with its officials. Despite high-tech entrepreneurs' distance to the party-state relative to other types of private capital holders, they are embedded with its institutions and agents and feel little motivation to confront it. To the contrary, one of T High-tech's founders states, “The government has been very supportive of our firm, and we try to support the government whenever we can.”

### Conclusion

So far, China's private entrepreneurs have not pressed for systemic political change and seem quite unlikely to align with other social interests in doing so. Rather, they appear quite supportive of the current power structure. Without doubt, the primary force generating these proclivities is instrumental in nature. The Chinese party-state has been both cunningly

strategic and quite ruthless in forestalling any attempt at organized political opposition. There are therefore high costs for anyone attempting to push for a more liberal order (Chen, 2008; Buena de Mesquita and Downs, 2005; Nathan, 2003). Private capital holders' interests are also fragmented, such that they are quite unlikely to coalesce into collective action calling for systemic political change (Tsai, 2005).

However, it is not only the difficulties in effectively opposing China's one-party-state that explain private entrepreneurs' lack of interest in a more liberal political order. Starting in the early 1990s, state-led development policies increasingly favored this group. As the cases of Z Chemical Corp and X Real Estate attest, the party-state has dismantled and transformed the "socialist" attributes of the economy in a manner benefitting private business owners. A process of "informal institutional adaptation" has allowed China's political system to incorporate and legitimate informal practices that were developing in the private sector, thus integrating and involving private capital holders in the party-state's process of decision-making and policy implementation (Tsai, 2007, pp. 202–209). To the extent that the upward socio-economic mobility of China's private capital holders has been facilitated by their ties with the regime, they have had little reason to criticize the political status quo.

Simultaneously, as in other late developers, China's rapid economic growth has created a polarized socio-economic structure where the "lower class" encompasses the vast majority of society.<sup>10</sup> Perceptions of inequality are further amplified by the fact that China's reforms started with notable economic equality. Many of those who now sit at the bottom have been the relative losers in the reform process and feel considerable bitterness toward those at the top. These feelings are reinforced by the widespread (and generally well-founded) perception that those at the top have gained their wealth illicitly through *guanxi* and corrupt practices. As a result, mass political empowerment might in all likelihood lead to demands for redistributing wealth. In this context, China's private entrepreneurs may legitimately fear majoritarian rule. Especially the richest private business owners are unlikely to risk the certain benefits of the present system "for the uncertainties of an alternative arrangement" (Dickson, 2003, p. 97). For most of China's private entrepreneurs, political stability is the top priority (Dickson, 2003, p. 134; Hong, 2004, p. 36).<sup>11</sup> In the words of An Chen: "threats perceived from the poor majority have pushed the affluent minority into the arms of authoritarian stability" (Chen, 2008, p. 160).

Instrumental incentives to support the political status quo are interwoven with affective reciprocal links to the agents and institutions of the party-state. As illustrated in the three cases detailed above, China's private entrepreneurs are thickly embedded in the party-state via *guanxi* and kinship ties. Even T High-tech, whose development did not depend so much on the party-state, has benefited from its founders' close *guanxi* with various government entities. As a result, even the owners of T High-tech have displayed little interest in disturbing the political status quo. As they observe: "In part we have prospered due to our close relations with various government agencies, and the Party's policies to facilitate high-technology ventures like ours. Without such support our success is difficult to envision."

Thick embeddedness with the party-state is to some degree a necessity for anyone trying to succeed in China's present system. For private entrepreneurs, close ties to the party-state, such as strong personal *guanxi* or kinship ties with power-brokers in the Party or membership in the Party and/or one of its affiliated organizations, facilitate their ability to gain information, access credit, procure licenses, avoid onerous taxes and obtain land (Shih, 2004, p. 3; Tsai, 2007, p. 84; Dickson, 2003, p. 106). Therefore, rather than seeking autonomy, private capital holders have pursued a mix of institutional and affective ties that thickly embed them with the party-state.

Comparatively speaking, there is thus little evidence that China will repeat the experience of England, where the urban "bourgeoisie" was at the forefront of democratization. China's process of capitalist development has been initiated and guided by the party-state in a manner that has favored private capital holders. As a result, the ruling regime has been able to co-opt emerging "capitalists." Of course, similar situations have characterized many other late developers, including those that developed around 1900. As Adam Przeworski (1986) explains, democracy requires the acceptance of uncertainty in political outcomes. Historically, the well-to-do have been willing to accept such uncertainty only when they have felt assured that their own wealth would remain shielded from the dictates of majority rule.

In China's case, the unwillingness to accept such uncertainty by private entrepreneurs is strengthened by their thick embeddedness in the current political order. The interweaving of instrumental and affective ties "overdetermines" private capital holders' support for the political status quo. Frequent interactions, sentiments of familiarity and trust, and a "we-group" feeling toward each other have made China's entrepreneurs more positively disposed toward the political establishment than would be the case with solely instrumental ties. Minor changes in the instrumental incentive structure, such as policies that reemphasize the state sector, are thus unlikely to strongly affect how China's private capital holders view the party-state. Put differently, the interweaving of affective, instrumental and institutional ties that thickly embed private capital holders in the party-state makes support for the political status quo more enduring and "sticky" than would otherwise be the case.

What does this imply for China's political future? China's private entrepreneurs may support systemic political reform only when they feel that "democratic" elections are the only viable means to protect their interests. Short of a major crisis

<sup>10</sup> According to 2005 China State Statistical Bureau figures, roughly 3 percent of the population is "upper class" (i.e., earns more than 500 000 yuan/year); 12 percent is "middle class" (earning between 60 000 and 500 000 yuan/year); and the remaining 85 percent is "lower class" (earning less than 60 000 yuan/year). At the time, China's national per capita income was 14 390 yuan/year (One U.S. dollar bought approximately 6.83 yuan in early 2010). For a broader discussion of the political consequences of socio-economic polarization in late industrializers, see Bellin, 2002.

<sup>11</sup> In fact, advocates of China's property law mainly have been liberal intellectuals. Private capital holders, especially China's wealthiest entrepreneurs, did not make any vigorous effort at lobbying for constitutional revisions and legal advances to protect their property. See Hong, 2004, p. 36.



undermining the legitimacy and perceived effectiveness of the party-state, such a scenario is difficult to envision in the near future. Naturally, if circumstances change radically and actors that possess strong affective ties see it in their self-interest to sell each other out, even thick embeddedness will not save the Chinese party-state. A massive economic downturn coupled with a revolutionary socio-economic situation might therefore move private entrepreneurs to see it in their interest to align with lower classes and seek a more encompassing and liberal polity.

Apart from such a radical change in circumstances, the most likely scenario for the immediate future is a version of authoritarian stability with incremental reform. Since China's political direction is to a large extent controlled by a Party leadership uninterested in systemic political change, a top-down process of democratization seems unlikely. In addition, the structural restraints upon the growth of democratic social forces in the Chinese context are far stronger than in pre-reform South Korea or Taiwan. China's private entrepreneurs comprise a tiny proportion of China's overall population, and US influence over China's political future is minimal. The most likely scenario is that the historical legacies of China's imperial and Leninist pasts will continue to hold sway, forestalling the development of a relatively autonomous civil society and independent checks on Party power.

In the longer term, however, it is possible that China's thickly embedded private entrepreneurs may become a force for change from within the political system. If China's current economic expansion is sustained, private capital holders will continue to gain in economic and political power. Further, most private entrepreneurs want to institutionalize China's market order and protect their property from state predation (Chen, 2002, pp. 412–413). From this standpoint, they have an interest in the rule of law. This implies that the seeds of liberal political reform in China might emerge from those who have been able to most successfully embed themselves with the party-state.

A final possibility is that, by seeking to retain its monopoly on legitimate political organization at any cost, China may not move beyond the dominant state model. Limitations on the security of property rights and sway of markets could ossify, forcing Chinese capital holders to continue their subservient ties with the party-state. The CCP would continue its monopoly over political organization and suppress any potential competitors for power. This would strengthen the crony capitalist tendencies of China's present system and perhaps gradually undermine the dynamism of economic change. At a minimum, it would entail the continuation of a weak "bourgeoisie" and a strong party-state.

The danger is that with a loss of economic dynamism, the party-state would require a new source of legitimacy. The most likely candidate would be a vigorous nationalism leading to a strengthening of xenophobic sentiments. China's emergent capitalism would then attain a strong nationalistic bent.

The thick embeddedness of China's capital holders in the state apparatus is not without precedent in Chinese history; it in many respects mimics relations between the state and the merchant/gentry classes in the late imperial era. At that point, a preference for interpersonal accommodation undermined China's attempts to develop well-functioning bureaucracies with formalized and universally applicable rules (Mann, 1987; Boisot and Child, 1996). A reliance on personalized ties to undertake business dealings was strongly reinforced by state officials, since they viewed impersonal business dealings that could lead to the amassing of large fortunes as a potential threat to state dominance (Gates, 1996, p. 32). While China's political economy differs in many respects from the late imperial political economy, the country might be slipping back into her pre-communist history of capitalist accumulation under state tutelage. Of course, this earlier political configuration proved unsustainable. Should China fall into this historical pattern once again, the scope of political futures is wide open, ranging from nationalistic Chinese crony capitalism to a liberal political order.

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