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The Political Impact of China's New Private Entrepreneurs

by

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Andrea Lynne Roberts

To
my amazing husband
Marc Foster
there in the clutch

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CHAPTER ONE: PRIVATE ENTREPRENEURS AND POLITICAL CHANGE IN CHINA

For the past decade and a half, profound economic reforms in China have led observers to wonder what, if any, political changes will accompany them. Since 1978, China's economy has grown at an average rate of nearly nine percent per year.¹ At the same time, its economy has shifted from one dominated by planning to one dominated by the market. This economic transformation has provided a tremendous opportunity for researchers interested in the connection between economic growth and political change.

The theoretical literature linking economic growth to political liberalization and democracy places special emphasis on the role of the business class, both on its own and as one of the "middle classes" between peasant and aristocrat. In this dissertation, I explore this relationship with a study of the new private business owners in China.

Private business owners have been a main beneficiary of the economic reforms in China. Private businesses were virtually nonexistent in the mid-1970s, having been nationalized, collectivized, or driven out of business in the preceding decades of Communist rule. Beginning in 1978, however, the Chinese government began to permit small-scale private businesses to open. Over the following decade and a half, the number and size of these businesses increased, and government policy toward them became more supportive. By the mid-1990s, the largest private businesses employed thousands of workers; the private economy provided half of all retail services in China, and produced one-fifth of the nation's industrial output.

This dissertation shows how the emergence of a business class has changed the Chinese polity. Over the past decade and a half, the business class has converted its economic power to political power in this authoritarian state. In and of itself, this

¹ 8.8%. *Zhongguo Tongji Nianjian* (China Statistical Yearbook), 1991, p. 21, quoted in Pei, Minxin. *From Reform to Revolution: The Demise of Communism in China and the Soviet Union*. Cambridge: Harvard University Press, 1994, 21.

acquisition of political influence by a segment of the population constitutes political liberalization in the context of a polity tightly controlled by a single Party. Furthermore, though the private entrepreneurs did not support democracy, they nonetheless directly and indirectly contributed to political liberalization by limiting the scope of Party power, reducing the exercise of arbitrary rule by Party cadres, and undermining the legitimacy of the Party.

THE POLITICS OF PRIVATE BUSINESS IN RECENT CHINESE HISTORY

In examining the politics of business owners in China today, it makes sense to look at the political behavior of business owners in recent Chinese history, to see if any patterns are being replicated. Studies of private entrepreneurs in the late Qing and Republican periods raise several questions relevant to the study of contemporary China. For example, were business owners in the late Qing and Republican periods politically powerful? To assess the political influence of business owners, scholars have looked at processes (how important were business organizations?) and at outcomes (how well were business owners able to protect themselves from state predation?)

Marie-Claire Bergere argues that the Chambers of Commerce formed by the bourgeoisie played a meaningful political role beginning at the turn of the century. After resisting co-optation into the Qing government in 1905, these organizations contributed to the collapse of the imperial system in 1911. Integrated into the elite through relatives who were intellectuals and gentry, the bourgeoisie had political influence both at the provincial and the national level in the 1920s.

The strength and independence of these organizations was short-lived, however. Though the capitalists, through their chambers of commerce, attempted to influence the KMT government with both petitions and tax withholdings, their behavior posed too much of a threat to Chiang Kai-shek. Because Chiang was so dependent on the

capitalists for revenue, he would not forbear any political resistance from them. He reorganized or disbanded many business groups, including the prestigious Shanghai Chamber of Commerce.² But the KMT did not in turn use these organizations as tools to control the business owners. Parks Coble argues that, by the 1930s, business organizations were too weak “either to articulate business interests or to serve as an indirect government agency for suppression of such interests.”³

Turning to the question of policy outcomes, research on the late Qing indicates that private business owners were unable to secure adequate property protections, and that the development of the private sector suffered as a result. In his study of merchants’ relationship with the Qing state, Wellington Chan notes that despite memorials to the throne from provincial governors-general to the effect that business owners hid their money in fear of state predation, the throne failed to stop the predations.⁴ Though the government tried to encourage investment by awarding merchants with court rank, they were not interested in status, but rather in “enforceable measures of protection from the government.”⁵ Bureaucratic extortion from returned overseas Chinese was also flagrant, to the extent that a Bureau of Protection established to shield these investors itself became a major expropriator.⁶

Business owners did not fare much better after the fall of the Qing. Although the Shanghai bourgeoisie helped prepare for the military uprising of 1911 and supported Sun Yat-sen’s new government with a loan of 7 million taels, they nonetheless failed to get

²Coble, Parks M. Jr. *The Shanghai Capitalists and the Nationalist Government: 1927-1937*. Cambridge: Council on East Asian Studies, Harvard University, 1980. 11.

³Coble, p. xiv. Bergere agrees that the KMT disempowered the bourgeoisie. Bergere, Marie-Claire. *The Golden Age of the Chinese Bourgeoisie, 1911-1937*. Translated by Janet Lloyd. Studies in Modern Capitalism, ed. Maurice Aymard, Jacques Revel, and Immanuel Wallerstein. New York: Cambridge University Press, 1989, 275-80.

⁴Chan, Wellington K. K. *Merchants, Mandarins, and Modern Enterprise in Late Ch'ing China*. Cambridge: East Asian Research Center, Harvard University, 1977. 161.

⁵Chan, 193.

⁶Chan, 201-3.

their interests represented in the new regime. As Sun Yat-sen's need for revenue remained high, businesses were the targets of heavy taxation.⁷ Similarly, the Yuan Shi-Kai regime that replaced Sun's government, though responsible for some policies favorable to business, also acted against business owner by dissolving the local assemblies that had served to organize them politically. Yuan's government also taxed businesses heavily.⁸

Predation of the private sector continued under the Nationalists. To fund his constant military ventures, Chiang Kai-shek used his alliance with the Green Gang in Shanghai to extort funds from bankers and industrialists through kidnapping, imprisonment, and ongoing threats of violence.⁹ The government's unquenchable thirst for military funds ultimately led it to take over the banking system in 1935.¹⁰ Overall, the private sector suffered from what Parks Coble has characterized as a total lack of commercial law, legal protections of property rights, or courts to protect property.¹¹ Furthermore, Chiang maintained an anti-capitalist ideology which deprived capitalists of legitimacy in the government and in the Nationalist Party.¹²

Given that the private sector during the late Qing and Republican periods was weak when judged both by political processes and political outcomes, was it at least economically independent from the state? The response of historians is that for most of this period, the private sector was not independent, but rather was enmeshed with the government.

During the late Qing, the government's effort to foster modern industry for national defense purposes led to the formation of private firms under the supervision of

⁷Bergere, 200-1.

⁸Bergere, 204-6.

⁹Coble, 32-5.

¹⁰Coble, 183.

¹¹Coble, 59.

¹²Coble, 11.

state officials (*guandu shangban*); these firms were to receive favorable government treatment . These joint firms started off well in the 1870s, but quickly suffered from excessive interference from their supervisory officials. Though merchants were initially willing to invest in these joint-ventures because they needed protection from excessive state squeeze, faced with such interference, merchants refused to reinvest, and the businesses ended up stagnating under “bureaucratic waste, inefficiency, and lack of capital.”¹³ Other businesses were begun by government officials responsible for policy-making in commerce and industry. Some of these did well, but were not able to expand much because they relied heavily on government loans and the personal finances of a few wealthy people.¹⁴ The financial system was incapable of making capital available for investment.¹⁵

A relatively independent private sector flourished in the 1910s and 1920s, dominated by a group of men from Zhejiang and Jiangsu Provinces. But by 1937, Chiang had replaced this private sector with one that was centered around Chiang’s close allies, including his brothers-in-law T. V. Soong, H. H. Kung, and T. L. Soong, the gangster Du Yuesheng, and other government officials.¹⁶ Because Shanghai businesses had always relied on the banks for liquid capital, the government take-over of the banks in 1935 meant that business became reliant on the government. When the Depression pushed firms to bankruptcy, many were reorganized under government control. Moreover, officials with access to bank capital used this access to buy firms that were on the verge of insolvency. Capitalists thus became, in the words of Parks Coble, “enmeshed with and dominated by the government.”¹⁷ In 1936-7, Nationalist officials became involved in setting up companies, providing them with bank loans, and granting them special political

¹³Chan, 8, 237-8.

¹⁴Chan, 9.

¹⁵Chan, 239-40.

¹⁶Coble, 252.

¹⁷Coble, 209.

favors. Often the individuals who owned the companies, granted the loans, and devised the favorable policies were the same people. However, these people were not the Shanghai capitalists; rather, they were Chiang Kai-shek's officials.¹⁸ By 1937, businesses that were not partly owned by government officials were nonetheless heavily dependent on contracts and favors from the government and its officers.

Recent Chinese history thus shows heavy government involvement in private business. This involvement meant that private businesses were often clients of government, incapable of independent political action, that firms were often not economically efficient or competitive, and that government was terribly corrupt. Businesses reliant on favorable policies and loans had little ability to oppose the government, or make themselves more efficient. Officials who made economic policy and determined bank lending practices often themselves owned businesses that benefited from these administrative decisions, leading to conflict of interest and corruption.

Does the private sector in present-day China, as some scholars have argued, follow these traditional patterns? Is it entwined with the government, inefficient, politically dependent, and corrupt?¹⁹

THE POLITICS OF THE MIDDLE CLASS IN EAST ASIA

The growth of a group of predominantly small- and medium-sized private business owners in China also inspires comparisons with other East Asian countries. Over the past three decades, economic growth in several East Asian countries has led to the emergence of a middle class of shopkeepers, clerical, technical, and managerial workers, and small manufacturers. At the same time, these East Asian polities have

¹⁸Coble, 208-10.

¹⁹Solinger, Dorothy J. "Urban Entrepreneurs and the State: The Merger of State and Society." In *State and Society in China: The Consequences of Reform*, ed. Arthur Lewis Rosenbaum. 121-141. Boulder, CO: Westview Press, 1992, 122-126. In fact, Solinger says that the private sector in the 1980s was "an altogether far more dependent class than those of earlier eras," 125.

become more liberal or even democratic. Were the middle classes, in particular business owners, contributors to this political change? How politically similar to these groups are China's business owners? Here I look briefly at the cases of Taiwan, South Korea, Hong Kong, Thailand, and the Philippines. Though some scholars of comparative politics have claimed that middle-class professionals and businesspeople were active in the democratic transitions in the Philippines, Taiwan, and Korea, studies by area specialists tend to disagree with this assessment.²⁰

For example, comparativists have cited Taiwan's transition to democracy as being a case of a transition pushed by the middle-classes. Area specialists, in contrast, focus on the role of the elite in the transition. Chou and Nathan cite the KMT's commitment to constitutional democracy, the KMT's non-Marxist ideology, and its belief that democracy could resolve its succession problems; Cheng and Haggard note the role of Jiang Jinguo's democratic ideas.²¹

Many authors also cite the rise of a competent opposition.²²

What, if any, was the role of the middle class in Taiwan's democratic transition? Though Hsiao says that the rise of a demanding civil society "to a certain extent" accelerated the state's move from hard to soft authoritarianism, liberalizing the polity, he also notes that the wave of social protests in the 1980s were mostly apolitical, and were not class-based.²³ Other authors refer vaguely to the "economic, social, and political maturation of population," but do not single out the middle class in particular.²⁴

²⁰Huntington, Samuel P. *The Third Wave: Democratization in the Late Twentieth Century*. Norman: University of Oklahoma Press, 1991, 68.

²¹Chou, Yangsun and Andrew J. Nathan. "Democratizing Transition in Taiwan." *Asian Survey* 27 (3 1987): 277-299, 283, 298; Cheng, Tun-jen and Stephan Haggard. "Regime Transformation in Taiwan: Theoretical and Comparative Perspectives." In *Political change in Taiwan*, ed. Tun-jen Cheng and Stephan Haggard. 1-29. Boulder: Lynne Rienner, 1992. 3-4.

²²Cheng, 3-4; Chou, 283, 298; Tien, Hung-mao. "Taiwan's Evolution Toward Democracy: A Historical Perspective." In *Taiwan*, ed. Denis Fred Simon and Ying-mao Kao. 3-23, pp. 16-18.

²³Hsiao, Hsin-Huang Michael. "Emerging Social Movements and the Rise of a Demanding Civil Society in Taiwan." *Australian Journal of Chinese Affairs* (24 July 1990): 163-179, 177-9.

²⁴Chou, 283, 298.

A study by Mau-Kuei Chang take the most detailed look at the political beliefs of the middle class in Taiwan, defined simply as the "middle stratum of people between the large conglomerates and the working people," including both managerial and professional workers -- the "new middle class" -- and small business owners -- the "petit bourgeoisie." The author cautions that despite many scholars' modernization-theory influenced arguments that the middle class pushed liberalization (based mostly on the fact that most opposition members and members of social movements were of middle class background), the middle class in fact supported the KMT more than did other social sectors. The author also argues that the middle class was politically divided according to sub-ethnic groups, with mainland Chinese tending to support the KMT more than Taiwanese.²⁵ The author further divides the middle class according to its economic interests. The public sector employees who comprised the bulk of the "new middle class" supported the KMT, because their social position would have been threatened by democracy. The petit bourgeoisie, in contrast, favored democratization in hopes of getting more influence in government, whether to gain protection from the government or more open markets.²⁶ Thus the author concedes business owners were pro-democracy, though less so than other classes, and mostly for economic reasons.

Scholars see the political role of the middle classes in South Korea's democratic transition as somewhat larger than in Taiwan, although the politics of the middle class in Korea is also debated. Hagen Koo argues that the middle class was highly involved in the transition. For example, white collar workers unionized to improve conditions in the workplace, making the workplace more democratic. Koo maintains that, despite a

²⁵Chang, Mau-Kuei. "Middle Class and Social and Political Movements in Taiwan: Questions and Some Preliminary Observations." In *Discovery of the Middle Classes in East Asia*, ed. Hsin-Huang Michael Hsiao. 121-176. Taipei: Institute of Ethnology, Academia Sinica, 1993. 122, 124-5.

²⁶Chang, 153-4. Chang cites a survey that shows that the petit bourgeoisie was involved in leading 48% of political protests in 1983-'88, while the "new middle class" led only 9%. However, Chang cautions that the petit bourgeoisie was politically involved only to further its economic interests, and "was most active in leading special interest protests." 157.

conservative swing following labor protest and violence in 1989, the middle classes were strongly pro-democracy. The middle classes pressured the state initially through street protests, and later through voting. Koo claims that the state was sensitive to the demands of this “silent majority” (though he does not offer an explanation for this purported sensitivity). He contrasts the democratic politics of the small business owners with that of the big capitalists, who, he argues, benefited from favorable policies, supported the regime, and were disinterested in gaining a political voice.²⁷

Scholars see important distinctions among members of the South Korean middle class. Hsiao, for example, claims that managers and professionals (the “new middle class”) were more progressive than small business owners.²⁸ Other analysts have questioned the coherence of the concept of a middle class based on these divisions within it. Kim, for example, points out that subjectively, Koreans do not divide their society into classes or think of themselves as belonging to a particular class. Objectively, the components of class, such as ownership of property, occupation, income, and education are not highly correlated. Kim therefore concludes that the attempt to speak of a middle class in Korea is forced.²⁹ The concept of a politics of the middle class therefore also becomes more questionable.

Discussions of the relationship between economic growth and political change in East Asia tend to focus on South Korea and Taiwan. But rapid economic growth has occurred in several other polities as well. Studies of Hong Kong politics have concluded that the middle classes are not active in politics, despite the middle class backgrounds of

²⁷Koo, Hagen. “Middle classes, democratization, and class formation: The case of South Korea.” *Theory and Society* 20 (4 1991): 485-509, pp. 494-500.

²⁸Hsiao 1993, 16.

²⁹Kim, Kyong-Dong. “Studies on the Middle Class in Korea: Some Theoretical and Methodological Considerations.” In *Discovery of the Middle Classes in East Asia*, ed. Hsin-Huang Michael Hsiao. 23-54. Taipei: Institute of Ethnology, Academia Sinica, 1993. 42-6, 50.

some political activists.³⁰ One analyst has concluded that economic growth has not caused political change in Hong Kong because Hong Kong's population of immigrants were self-selected by a motivation to earn money, and were not opposed to the colonial government. Hong Kong residents, it is argued, are similarly not motivated by class politics because they do not see society as divided into working and capitalist class.³¹ Others argue that the recent emergence of the middle class in the 1950s, coupled with the colonial experience, has not given the middle class an opportunity to become involved in politics.³² Accounts of democratization following economic growth in Thailand have similarly not assigned a role to the middle classes or the petit bourgeoisie in particular. Business owners are seen as being the beneficiaries of democratization rather than its agents.³³

In the Philippines as well, despite stories in the popular press of a "middle class democratic revolution," accounts by area specialists do not present a big political role for the middle class. Mack and Villegas, for example, argue that although the withdrawal of the support of the urban middle class was a contributing factor to the demise of the Marcos regime, the main factors in both his ascension to power and his defeat were elite power struggles. The restoration of democracy, the authors maintain, should be seen more as a result of the stagnation of the authoritarian regime in the context of a historically democratic state than as a triumph of the middle class. Though there was substantial economic growth in the Philippines, the potential political impact of this

³⁰Lui, Tai-Lok. "Hong Kong's New Middle Class: Its Formation and Politics." In *Discovery of the Middle Classes in East Asia*, ed. Hsin-Huang Michael Hsiao. 247-271. Taipei: Institute of Ethnology, Academia Sinica, 1993, 264.

³¹Wang, Thomas W. P. "The New Middle Class in Hong Kong: Class in Formation?" In *Discovery of the Middle Classes in East Asia*, ed. Hsin-Huang Michael Hsiao. 273-306. Taipei: Institute of Ethnology, Academia Sinica, 1993, 280-1, 285.

³²Liu, 249, 256, 267.

³³Chan, 197-203.

growth did not materialize because population growth kept per capita income very low.³⁴ Thus, upon closer examination, the “people power” explanation of the Philippine transition is challenged.

What questions do the cases of middle class politics in East Asia raise for a study of China’s small- and medium-sized business owners? Studies of East Asian countries indicate that the political impact of members of the middle class has varied from country to country, though in general has been less important than popularly assumed. According to existing studies, in many East Asian countries the middle classes have been politically inert. Thus, the question arises: are the Chinese middle classes different than their neighbors? Similarly, the way in which the East Asian middle classes influence politics has varied, and includes street marches, voting, and grass-roots social campaigns. Given that these venues are for the most part impossible for China’s middle classes, are they influencing politics in any other ways? In looking in particular at the role of small- and medium-sized business owners, some authors have focused on the ways in which their economic interests dictate their political interests. This raises the question of what factors influence the political beliefs of China’s business owners. Are their political beliefs primarily a function of their position in the economy?

BUSINESS OWNERS AND POLITICAL CHANGE: THE MISSING “HOW” IN COMPARATIVE THEORY

Comparative political science also raises questions for the study of the emergence of a private business sector in China. Two schools of thought have emerged to explain the role of the newly well-off in fostering democracy. Neo-modernization theory centers on the middle classes in general, giving a role to professionals, white collar workers, and skilled laborers, as well as business owners, while class-based comparative studies point

³⁴Mack, Jamie and Bernardo M. Villegas. “The Philippines: An Unusual Case.” In *Driven By Growth: Political Change in the Asia-Pacific Region*, ed. James W. Morley. 97-118. Armonk, NY: M. E. Sharpe. 1993, 97, 116-7.

to business owners alone. Each of these literatures examines the political effects of the development of a business class, yet neither explains *how* a business class can translate its economic resources into political power in a polity where political expression is tightly controlled.³⁵

Neo-modernization theory claims that wealth alters the political beliefs of the citizenry. It fails, however, to explain how these new beliefs create political change. The neo-modernization writings tend to take for granted that if the wealthy middle classes become democrats, political liberalization will eventually follow. In contrast, some small-n comparative studies of the emergence of democracy argue that business owners used their wealth to support political parties or military ventures, thus gaining political influence. But the relevance of these small-n studies is limited to polities in which some freedom of political expression already exists. Thus neither of these literatures explains how the emergence of a business class can create political liberalization in a polity in which political expression and organization are highly constrained. In this section, I take a brief look at the causal path posited by these two literatures, the path leading from business owners to political liberalization .

Neo-modernization literature

Whether or not economic growth encourages political liberalization has been highly contested. Since Lipset suggested in 1959 that wealth and democracy are connected, increasingly sophisticated statistical tools have been used to substantiate this causal relationship.³⁶ In cross-national multivariate analysis, scholars have found economic development to be the dominant explanatory variable for the emergence of

³⁵Cheng and Haggard remark on the same flaw in the literature in their discussion of Taiwan's democratic transition. They state that the "preconditions" literature does not explain "how the democratic threshold is actually crossed." The political processes involved are not explained and it is assumed that democratic demand eventually results in the supply of democracy. 2.

³⁶Lipset, Seymour Martin. "Some Social Requisites of Democracy: Economic Development and Political Legitimacy." *American Political Science Review* (1959).

democracy.³⁷ This positive relationship between economic development and political liberalism has been found for non-democracies as well.³⁸

The scholarship in support of the hypothesis that economic growth leads to political liberalization has been met with a counter surge of skepticism, however. Some studies have contradicted the basic statistical finding, discovering variation in the effect of economic development on political liberalization at different levels of development.³⁹ Despite these puzzles in the cross-national statistical evidence, theorists have offered a range of explanations for why economic growth would lead to political liberalization.

Neo-modernization literature has argued that wealth influences politics by changing the beliefs of the populations, by creating a more democratically inclined citizenry. Increased tolerance is widely cited as an outgrowth of more education and higher personal income. As Lipset wrote, "education presumably broadens man's outlook, enables him to understand the need for norms of tolerance, restrains him from

³⁷For example, Bollen and Jackman concluded from their 1985 multivariate analysis that level of economic development was the dominant explanatory variable for democracy. Bollen, Kenneth A. and R. Jackman. "Political Democracy and the Size Distribution of Income." *American Sociological Review* 50 (1985): 438-457, 42.

³⁸Larry Diamond found that economic development positively affected political development across seven categories of regime type, from "most highly closed" to "fully liberal and institutionalized democracies." Diamond, Larry. "Economic Development and Democracy Reconsidered." *American Behavioral Scientist* 35 (4/5 1992): 450-499, p. 456.

³⁹Robert Dahl found a "floor" and "ceiling" effect for the impact of development on democracy, which led Huntington to coin the term 'transition zone' to describe the level of development in which countries were mostly not democratic but had high enough development to become democratic. Dahl, Robert A. *Polyarchy: Participation and Opposition*. New Haven: Yale University Press, 1971, 66. Huntington, Samuel P. "Will More Countries Become Democratic?" *Political Science Quarterly* 99 (Summer 2 1984): 193-218. Bollen and Jackman also did not find a smooth relationship between economic development and liberalization, but detected a larger impact of development on democracy at lower levels of wealth, an impact which tapered off as wealth increased. Similarly, Lipset, Seong, and Torres found an "N-curve" relationship, where development increases chances for democracy up to lower-middle levels of per capita GNP, decreases the odds in the middle range, and increases chances again in the upper range. Lipset, Seymour Martin, K. R. Seong, and J. C. Torres. "A Comparative Analysis of the Social Requisites of Democracy." Stanford University, Hoover Institute, 1991. The middle range was a per capita GNP of 2,300\$ to 5,000\$ in 1980 dollars. Cited in Diamond. One problem with the methodology of many of these studies is that they make arguments about changes over time, but they do not use time-series data; rather, they use data from many countries in the same year. This makes it harder to separate the true relationship from 'moment in historical time' influences.

adhering to extremist doctrines, and increases his capacity to make rational electoral choices.”⁴⁰

Higher income and financial security for the bulk of the population are hypothesized to foster a more gradualistic, complex, long-term view of politics and therefore temper antagonisms.⁴¹ Class-based antagonisms are posited to be more extreme in poorer countries because wage and wealth differences between rich and poor, skilled and unskilled tend to be greater. The differences are claimed to be more significant psychologically because in poor countries different social strata consume different goods. For example, wealthy people have telephones, cars, and bathtubs, while poor people do not.⁴² As these differences are mitigated through growth, lower classes are thought to become more moderate. Similarly, upper classes are also hypothesized to gain tolerance, becoming less likely to view the lower classes as vulgar and innately inferior, less likely to perceive ceding political rights to them as absurd and immoral.⁴³ Economic development thus narrows the gap between rich and poor, making both more receptive to compromise.

Studies of Latin American countries have combined these two hypothesis about wealth and education by showing that business, professional, and educated middle-class groups have more appreciation of social and political accommodation than their less well-off and less educated peers.⁴⁴ A study of mostly European nations found a correlation

⁴⁰Lipset, “Some Social Requisites,” 39.

⁴¹Lipset, Seymour Martin. *Political Man: The Social Bases of Democracy*. Baltimore: Johns Hopkins University Press, 1981, 45.

⁴²*Ibid.*, 50.

⁴³*Ibid.*, 48-51.

⁴⁴Diamond, Larry and J. J. Linz. “Introduction: Politics, Society, and Democracy in Latin America.” In *Democracy in Developing Countries: Latin America*, ed. Larry Diamond, J. J. Linz, and Seymour Martin Lipset. 1-58. Boulder: Lynne Rienner, 1989; McClintock, Cynthia. “Peru: Precarious Regimes. Authoritarian and Democratic.” In *Democracy in Developing Countries: Latin America*, ed. Larry Diamond, Juan J. Linz, and Seymour Martin Lipset. 335-386. Boulder: Lynne Rienner, 1989; Wiarda, Howard J. “The Dominican Republic: Mirror Legacies of Democracy and Authoritarianism.” In *Democracy in Developing Countries: Latin America*, ed. Larry Diamond, Juan J. Linz, and Seymour Martin Lipset. 423-458. Boulder: Lynne Rienner, 1989.

between interpersonal trust and life satisfaction and economic development and stable democracy.⁴⁵ Some scholars in this school, following Lipset, also argue that educated individuals are not just more tolerant, but are more specifically committed to democracy and participation.⁴⁶

Researchers have further found that people with more education are more likely to participate in politics. In their study of five nations, Almond and Verba found that education makes people more likely to be politically informed, to be opinionated, to follow politics, to join an organization, to be confident of their ability to influence the government, and to manifest trust in others.⁴⁷

In addition to changing individuals' beliefs, economic growth is also posited to cause political liberalization by fostering the growth of groups with more democratic beliefs: the middle classes. In an argument related to the claim that increased income reduces tensions between classes, theorists point to politically beneficial changes in class structure resulting from economic growth. Specifically, authors point to the growth of classes between poor peasants and rich aristocrats. Classes specified as belonging to this group include the middle class, the commercial and industrial bourgeoisie, and the working class.⁴⁸ These "middle" classes reward moderate and democratic parties and penalize extremist groups, inferred Lipset.⁴⁹ Huntington also credited the "third wave" of

⁴⁵Inglehart, Ronald. *Culture Shift in Advanced Industrial Countries*. Princeton: Princeton University Press, 1990.

⁴⁶Inkeles and Smith supported this notion in their finding that democratic orientations such as respect for minority rights and "freedom from absolute submission to received authority" increased as education increased. Inkeles, Alex and D. H. Smith. *Becoming Modern: Individual Change in Six Developing Countries*. Cambridge: Harvard University Press, 1974, 109. Wiarda and McClintock both found stronger values of democratic participation among more educated people.

⁴⁷Almond, Gabriel and Sidney Verba. *The Civic Culture*. Boston: Little, Brown, 1963. See also Inkeles, Alex. "Participant Citizenship in Six Developing Countries." *American Political Science Review* 63 (1969): 1120-1141.

⁴⁸Diamond, 478.

⁴⁹Particularly if the growth of the working class is accompanied by higher incomes and unionization. Lipset 1981, 51.

democratization in the 1980s in part to growth of these classes, as did some area specialists.⁵⁰

Specific evidence *systematically* linking middle classes to pro-democratic politics is sparse, however. Furthermore, the reasoning in this literature tends towards the formulaic: lower classes are assumed to be socialists or communists, middle classes, democrats, and upper classes, oligarchs.

The argument these authors make is that economic development causes increases in education and job satisfaction. Increased education, wealth, and job quality gives rise to a “modern” personality: one which is trusting, efficacious, satisfied, and tolerant. Once a nation is full of such people, the literature contends, democracy arises. However, this chain of causation can be challenged at each step, which is often what case studies of individual countries have done.

The most basic challenge to neo-modernization literature lies in an examination of its choice of a word: economic ‘growth’ versus economic ‘development’. Though the literature is broadly taken to be claiming a link between growth and democracy, it is actually making the smaller claim of a link between *development* and democracy. While economic growth is simply growth in the size of an economy, economic development is growth in the material well-being of the average citizen. Because the bulk of the studies in this literature use measures of development, they introduce the problem of tautology.⁵¹

The issue of tautology arises because only in certain types of political economies will economic growth result in increases in the material well-being of the average citizen. For the well-being of the average citizen to improve with growth, the capital in the economy must be distributed, or labor must be reasonably strong (whether through unions

⁵⁰Huntington, *Third Wave*, 46. McClintock cited the “rise of politically organized middle classes and a pro-democratic political culture” in the democratization in Peru, 377.

⁵¹Thanks to Marcus Kurtz for this point. A common measure of development is the UN’s Human Development Index, an unweighted combination of standardized adult literacy, life expectancy, and log per capita GDP.

or through government policy), or the government must pursue extensive redistributive policies. All of these conditions imply a preexisting distribution of power in the society or polity, which economic growth will reinforce. Often, though, growth does not occur under these circumstances. In Latin America, growth in the 1970s was accompanied by increased income disparities and a movement from democracy to authoritarian rule.⁵² The extreme case of growth without development is the oil economy, where economic growth typically benefits a narrow sector of society that controls most of the country's resources.

Just as economic growth does not necessarily entail economic development, economic development does not necessarily lead to increases in income equality or education. For example, growth in China over the past decades has improved the material standard of living for most people, thus constituting economic development, but economic growth has also been accompanied by increased income inequality and possibly decreased education levels. Though most people are better off in absolute terms, income inequality has worsened in comparison to the relatively even distribution of income that existed under Mao. So in contrast to what the literature above argues, development in China has created economic class-based conflict where little existed before. Furthermore, reduction of state funding to schools, coupled with children leaving school to work on family farms, may have resulted in lower education rates in China.

In addition, the claim that education brings increased tolerance and democratic ideas is contestable. Though studies of different cultures have linked education to increases in tolerance of minorities, willingness to accommodate diverse viewpoints, and complexity of thinking, some studies of the impact of education on beliefs have come to

⁵²Collier, David. "Overview of the bureaucratic Authoritarian Model." In *The New Authoritarianism in Latin America*, ed. David Collier. 19-32. Princeton: Princeton University Press, 1979. 19-20.

the opposite conclusion.⁵³ The impact of education on beliefs must depend at least in part on the content of that education.

Finally, though education and wealth are found to increase political participation, increased participation may not create a more liberal polity. As Samuel Huntington has contended, political mobilization and participation without an adequate institutional framework to absorb it can result in political disorder rather than in a more liberal polity.⁵⁴ Huntington and Nelson also criticized the notion that economic growth, economic equity, and political participation naturally go together.⁵⁵ Writings on bureaucratic authoritarianism in Latin America illustrate this point by showing how a certain kind of industrialization encouraged the formation of political coalitions harmful to democracy.⁵⁶

⁵³For example, most Americans believe that college-educated people were less supportive of the Vietnam War than their less well-educated peers, due in part to a belief that educated people are more tolerant and therefore more likely to have oppose the elements of racism and ethnocentrism in the conduct of the war. However, a study of the impact of education on attitude toward the Vietnam War found that better educated people were more likely to support the war. The author argued that this was because educated people had received more nationalistic propaganda through their longer schooling. Loewen, James W. *Lies My teacher Told Me: Everything Your American History Textbook Got Wrong*. New York: The New Press, 1995, 297-304. Hannan and Carroll, studying the 1950-1975 period, did not find that modernizing experiences, such as education and urbanization, affected rates of change of political forms. Hannan, M. T. and G. R. Carroll. "Dynamics of Formal Political Structure: An Event-History Analysis." *American Sociological Review* 46 (1981): 19-35, p. 30. Cited in Diamond.

⁵⁴Huntington, Samuel P. *Political Order in Changing Societies*. New Haven: Yale University Press, 1968.

⁵⁵They cited necessary tradeoffs between three goals: growth, equity, and participation. Initial stages of industrialization typically require land reform. Land reform, they argue, requires an authoritarian government, because a democracy would be dominated by landed interests that would oppose land reform. Equity and participation thus conflict. As industrialization begins, populist demands can slow growth, thus participation and equity can conflict with growth, according to Huntington and Nelson's argument. Huntington, Samuel P. and J. M. Nelson. *No Easy Choice: Political Participation in Developing Countries*. Cambridge: Harvard University Press, 1976.

⁵⁶Collier; Evans, Peter. *Dependent Development: The Alliance of Multinational, State, and Local Capital in Brazil*. Princeton, NJ: Princeton University Press, 1979; O'Donnell, Guillermo. *Modernization and Bureaucratic-authoritarianism: Studies in South American Politics*. Politics of Modernization Series, Berkeley: University of California Institute of International Studies, 1973.

Class-based comparative studies

Explanations of how economic growth creates political liberalization that point specifically to the business class focus on the distribution of power in society rather than on the beliefs of individuals or groups. Economic growth, it is argued, may foster the development of a business class not reliant on the state for its economic existence. A business class that generates its own sources of revenues without direct help from the state constitutes a source of power outside the state. Such a business class will use its economic power to demand political power for itself. In such cases, the shift of political power from exclusively state-controlled to shared between state and some citizens is in itself a kind of political liberalization, since political power is less concentrated.

Rather than focusing on how the economic resources of the business class are translated into political power, class-based studies of political development have concerned themselves with the size and strength of the business class and its political allies. But their narratives nonetheless offer explanations. For example, Luebbert assigned a pivotal role to the business class in his explanation of the emergence of inter-War regimes in Europe.⁵⁷ He attributed the ultimate emergence of democracy to the triumph of Liberal parties supported by the business class.⁵⁸ In his account, the economic power of businesses was converted to political power through financial support of political parties which represented their interests.

Barrington Moore's study of the development of democracy, fascism, and communism in six countries also centered on the business class. Though he is most well

⁵⁷Luebbert, Gregory M. *Liberalism, Fascism, or Social Democracy: Social Classes and the Political Origins of Regimes in Interwar Europe*. New York: Oxford University Press, 1991.

⁵⁸The key issue for him was whether pre-existing linguistic, geographic, and religious cleavages prevent this class from uniting politically. He subsumes the business class under the rubric "middle classes," which he does not define at the outset, but in his discussion, he refers to urban business owners and wealthier rural farmers (whom he calls "family" farmers).

know for his succinct phrase “no bourgeoisie, no democracy,”⁵⁹ he did not argue that the bourgeoisie were democrats. For this reason it was possible for him to conclude that there was nothing inevitable about democracy in England at the end of the 1700s: “indeed it is unlikely that more than a very few people had any but the haziest notions as to what the words could mean or what kind of society might lie over the horizon.”⁶⁰ The bourgeoisie, Moore claimed, were instrumental in setting the groundwork for democracy in England because they strengthened the institution of Parliament and undermined the structure of rural class relations by remaking them along commercial lines. In addition, Moore argued that in both the United States and in England, business owners were pivotal in the eventual triumph of democracy because they destroyed the social and economic foundations of the old political order, providing the possibility for the construction of a new polity. In both countries, business owners used their economic resources to gain political power through military conflict.

These comparative studies raise the question of how China’s business class is influencing politics, if not through voting, economic support for political parties, or military conflict? These writings further raise the question of whether business owners are democrats, and if better educated, better informed business owners have more liberal views than their less educated, less “modern” peers.

STUDIES OF THE POLITICS OF CHINA’S PRIVATE ENTREPRENEURS

In this dissertation, I seek to answer the questions raised by these literatures through a comprehensive study of the political behavior and beliefs of China’s new private business owners.

⁵⁹Moore, Barrington, Jr. *Social Origins of Dictatorship and Democracy: Lord and Peasant in the Making of the Modern World*. Boston: Beacon Press, 1966. 418.

⁶⁰*Ibid.*, 30.

Though several important studies focus on the social origins, status, and social behavior of private entrepreneurs,⁶¹ relatively few studies have centered on political beliefs and behavior. Many scholarly works speculate about the political beliefs of private business owners from other data, but only Wank has systematically examined the beliefs of a large number of entrepreneurs. Unfortunately, Wank does not provide any statistical analysis of his results, thus, he does not comment on variation in the beliefs of entrepreneurs based on age, education, business sector, or other factors.

Other studies have commented on the interactions of private business owners with local government officials. Further study of this issue is warranted not only because earlier studies were not conclusive, but also because these interactions appear to be rapidly evolving. While Bruun found that local officials in Sichuan hindered the functioning of private business, Liu attributed the rapid growth of the private economy in Wenzhou to the actions of supportive local officials.⁶² Other research has produced intriguing results but cannot be generalized from because of the small sample size or the inclusion of only certain types of entrepreneurs.⁶³

⁶¹For example, Bruun, Ole. *The Reemergence of the Family as an Economic Unit: A Sample Survey of Individual Households in Workshop Production and Crafts, Chengdu, Sichuan Province, China*. Copenhagen Discussion Papers, Copenhagen, Denmark: Center for East and Southeast Asian Studies, University of Copenhagen, 1988; Bruun, Ole. *Business and Bureaucracy in a Chinese City: An Ethnography of Private Business Households in Contemporary China*. China Research Monographs, ed. Joanne Sandstrom. Berkeley: University of California, 1993; Gold, Thomas B. "Guerrilla Interviewing Among the Getihu." In *Unofficial China: Popular Culture and Thought in the People's Republic*, ed. Perry Link, Richard Madsen, and Paul G. Pickowicz. Boulder, CO: Westview Press, 1989; Gold, Thomas B. "Urban Private Business and Social Change." In *Chinese Society on the Eve of Tiananmen: The Impact of Reform*, ed. Deborah Davis and Ezra F Vogel. Cambridge: Harvard University Press, 1990; Young, Susan. "Wealth But Not Security: Attitudes Toward Private Business in China in the 1980s." *Australian Journal of Chinese Affairs* (25 1991): 115-137.

⁶²Bruun, "Reemergence of the Family"; Liu, Yia-Ling. "Reform From Below: The Private Economy and Local Politics in the Rural Industrialization of Wenzhou." *China Quarterly* (1992): 293-316.

⁶³For example, Wank interviewed only private wholesale traders. (Wank, David L. "Private Business, Bureaucracy, and Political Alliance in a Chinese City." *Australian Journal of Chinese Affairs* (33 1995): 55-71; Wank, David L. "The Institutional Process of Market Clientalism: *Guanxi* and Private Business in a South China City." *China Quarterly* (147 1996): 820-838). Francis interviewed only eleven managers, some of whom were not private business owners. (Francis, Corrina-Barbara. "Reproduction of Danwei Institutional Features in the Context of China's Market Economy: The Case of Haidian District's High-Tech Sector." *China Quarterly* (147 1996): 839-859).

Two studies have researched organizations of private entrepreneurs, seeking to understand whether they represent the beginnings of civil society in China.⁶⁴ These studies give an overall sense of the functioning of these organizations, but do not provide a very clear picture of the type and cause of variation in entrepreneurs' interactions with and attitudes toward such organizations. This is because the unit of analysis in these studies was the organization rather than the entrepreneur. In neither study were meaningful numbers of entrepreneurs interviewed in any depth regarding their views toward the organizations.⁶⁵

My study is based on in-depth interviews with more than eighty private business owners. For 58 of these, I used the same semi-structured interview questionnaire. Each interview lasted from one and a half to over two hours. The length of the interview permitted me to begin the conversation with personal and business-related questions which interviewees were interested in, familiar with, and comfortable discussing. In the second half of the interview, after interviewees had relaxed somewhat, I asked questions about their relationship with government bureaus and participatory organizations, and their opinions of these organizations. Only at the end of the interview did I ask the most sensitive political questions. After the interview, I was often invited for a meal with the business owner and some employees, during which I had the opportunity to continue the conversation more informally.

Because so little was known about the politics of private business owners in China, rather than targeting a narrow area of entrepreneurs' political activities (such as

⁶⁴These include Nevitt, Christopher Earle. "Private Business Associations in China: Evidence of Civil Society or Local State Power?" *The China Journal* 36 (July 1996): 25-43; Unger, Jonathan. "'Bridges': Private Business, The Chinese Government, and the Rise of New Associations." *China Quarterly* (147 1996): 795-819.

⁶⁵Though Nevitt refers to two surveys he conducted of members of private business associations, he provides only a couple of summary statistics. Unger interviewed only a small number of entrepreneurs.

their participation in business associations), my research covered a broad range of topics. In this way I hoped to capture politically significant beliefs and behaviors even if I had not anticipated their importance before beginning the research. My questionnaire therefore included basic business function (such as sourcing capital and finding customers), interactions with the government (including paying taxes, getting permits, and dealing with regulatory bureaus, as well as participation in business associations), and political beliefs (regarding human rights, the future of the Communist Party, the Hong Kong takeover, and the Russian reforms).

The study also captured variation in the independent variables, namely, entrepreneurs' personal characteristics, including age, sex, education, Party membership, class background, and city of residence, and the characteristics of their firms, including capital, number of employees, sector, technology level, and years in business. The study was conducted at three sites (Beijing, Hangzhou, and Shanghai) in order to understand the impact of variations in local government on the politics of private business owners. Finally, the interviews were coded using content analysis, enabling me to analyze the variation in entrepreneurs' responses statistically, rather than relying solely on personal impressions and anecdotes. A description of how the interviews were conducted is included as Appendix One; the interview questionnaire is included as Appendix Two, and the coding document is included as Appendix Three.

In addition to the interviews with entrepreneurs, I interviewed several government officials in the organizations for private business owners. This study also uses a substantial number of documentary sources, including newspaper and magazine articles written about or for the private sector, legal cases involving private businesses, and internal government reports.

In Chapter Two, I examine the economic foundations of the private sector, to answer questions regarding its dependence on the Communist Party for its economic successes. Chapter Three focuses on the impact private business owners have had on the development of market institutions in China, which provides one answer to the question of how entrepreneurs have translated their wealth into political influence. In Chapter Four, I examine the political beliefs of business owners, analyzing the extent to which they have rejected Communist Party propaganda. This chapter answers the question of whether entrepreneurs are democrats, and also analyzes the factors that influence entrepreneurs' beliefs. The chapter also looks at the impact of the private sector on Communist Party ideology. Chapter Five argues that the private firm has become a shelter from the Communist Party-state, and details some implications. This chapter thus provides a further explanation of how business owners have influenced Chinese politics.

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CHAPTER TWO: THE EMERGENCE OF AN AUTONOMOUS PRIVATE SECTOR

In assessing the political impact of the private sector in China, it is necessary at the start to understand the economic foundations of this sector. Are most of the profits of private firms derived from theft of state resources, as some early observers claimed?¹ Or are most profits derived from value added by the firm? Is success in the Chinese private sector primarily determined by the quality of an entrepreneur's contacts with Communist Party cadres, as one study asserts?² Or is the economic efficiency of the firm more important? Does the private economy replicate historical Chinese patterns in which private businesses were clients of government, incapable of independent political action, and firms were not efficient or competitive? Is money in China's private sector invested in order to appropriate wealth which has already been produced rather than in actually producing wealth?³ The answers to these questions matter politically for several reasons.

Private sectors that are beholden to a regime for their success are unlikely to want to replace that regime. For example, South Korea capitalists were highly dependent on a series of authoritarian governments for the growth of their firms. As Hagen Koo has noted, "the key to [large business owners'] rapid capital accumulation has been the extraordinary market privileges they obtained through political connections." Because of their firms' dependence on the authoritarian regime, large capitalists in South Korea were

¹For example, Xiao Fangyang and Yu Yongdong, "Guanyu Siying Qiye de Diaocha Yanjiu Baogao (Research Report Regarding an Investigation of Private Enterprises)." *Jianghuai Luntan* (6 1988): 7-12.

²Wank, David L. "Private Business, Bureaucracy, and Political Alliance in a Chinese City." *Australian Journal of Chinese Affairs* (33 1995): 55-71, p. 68-71. Wank's study of Chinese entrepreneurs concludes that as private businesses grow, they necessarily increase their dependence on corrupt cadres. For this reason, he argues, they disapproved of the anti-corruption stance of the Tiananmen protesters because their businesses would have been jeopardized by a crackdown on corruption. However, Wank draws conclusions about the entire private sector from a study exclusively of wholesale traders. Unfortunately, wholesale trading is particularly susceptible to corruption, since it is a main avenue by which deliberately under priced resources controlled by state enterprises can be sold at higher market rates. For discussion of entrepreneurs' political beliefs, see Chapter 4.

³I paraphrase Andreski 1983, v. 9, quoted in Hutchcroft, Paul. "Booty Capitalism: Business-Government Relations in the Philippines." In *Business and Government in Industrializing Asia*, ed. Andrew MacIntyre. 216-243. Ithaca: Cornell University Press, 1994, 219.

“actually reluctant to translate their economic power to political power; they were happy to engage in accumulation under the protection of the Bonapartist state.”⁴ Koo contrasts the economic dependence of large capitalists on the state with the independence of small business owners, who played a “critical” role in South Korea’s transition to democracy.⁵

Private sectors that profit extensively from corruption are also politically troublesome because the perceived unfairness of their gains fosters instability. For example, in his 1992 inaugural address, Fidel Ramos said the Philippines’ economic system “rewards people who do not produce at the expense of those who do... [and] enables persons with political influence to extract wealth without effort from the economy.”⁶ Such corruption created instability in the Philippines under Marcos and in South Korea under Park and Chun.⁷

Moreover, if corruption is a major route to success in the private sector, growth of the private economy will tend to lead to a less even distribution of wealth than growth without massive corruption. The development of a very uneven distribution of wealth in Korea contrasts with the far more even economic growth in Taiwan, and these cases

⁴Koo, Hagen. “Middle classes, democratization, and class formation: The case of South Korea.” *Theory and Society* 20 (4 1991): 485-509, 502.

⁵Ibid., 485. Solinger concludes that because private entrepreneurs are beholden to the state for their success, they lack political autonomy. “Merchant and bureaucrat both battle over, but at times jointly participate in, the expansion of a single pot of state resources, state-owned supply channels, and state-dominated sales outlets... Thus it is difficult to speak of any real ‘autonomy’ of social forces from the state in China.” (Solinger, Dorothy J. “Urban Entrepreneurs and the State: The Merger of State and Society.” In *State and Society in China: The Consequences of Reform*, ed. Arthur Lewis Rosenbaum. [21-141. Boulder, CO: Westview Press, 1992, 121). Her view of the state sector as economically dominant was out of date even in 1992, given the widely noted collapse of the state-run economy. As one example, her claim that in general private firms had to fight for access to state-controlled sales outlets is simply wrong. A survey done by the State Commission on Restructuring the Economy found that retail sales by private and foreign firms had increased from 2% of the national total in 1988 to 31% in 1992; in contrast, retail sales by state-owned firms had shrunk from 55% to 41% (FBIS. “Survey finds private sector’s strength increasing.” 29, 1994.) According to a recent analysis of statistics regarding the private economy, these figures probably massively understate the real extent of private retail sales then and now (Sabin, Lora. “New Bosses in the Workers’ State: The Growth of Non-State Sector Employment in China.” *China Quarterly* 140 (December 1994): 944-970). Like Wank, Solinger conceptualizes the Chinese private sector as comprised exclusively of traders or shopkeepers — she refers to private entrepreneurs as “merchants.”

⁶Hutchcroft, 222-223.

⁷Koo, 490, 502; and Hutchcroft, 222, 229. Not to mention that corruption (in this case of officials and their children) was a primary complaint of the Tiananmen demonstrators. Of course, as these examples indicate, sometimes such corruption can ultimately catalyze democratic transitions.

contrast even more sharply with the distribution of wealth in “predatory” regimes such as Marcos’ Philippines and Nigeria after 1973.⁸ Highly uneven distributions of wealth are seen as reducing the likelihood of a democratic transition by increasing tensions between classes.⁹

Governments in which the private sector and government officials are engaged in mutually enriching unproductive activities also tend to be ineffectual at the tasks of governing. As officials spend most of their time catering to particularistic demands, they have no time to form rational policy (and often do not want to).¹⁰ In extreme cases, private sectors that are engaged entirely in redistributing government and societal resources rather than in producing do not contribute to growth of the economy. Given the extraordinary growth of the Chinese economy, it seems at the outset unlikely that the private sector in China is *primarily* non-productive.

There are a number of factors which can indicate the extent to which China’s private business owners are wealth-producing. For example, to what extent do private entrepreneurs rely on manipulating relationships with the government in order to get wealthy? Do entrepreneurs even have such relationships? Do they report that most of their efforts are spent cultivating relationships with government officials, or do they report that most of their efforts are spent in reducing costs, improving product quality, or other market-oriented pursuits? What level of competition do private firms experience, and is this competition based on contacts with government officials, or is it based on market

⁸Schatz, Sayre P. “Pirate Capitalism and the Inert Economy of Nigeria.” *Journal of Modern African Studies* 22 (1 1984): 45-57, p. 55-7.

⁹Lipset, Seymour Martin. *Political Man: The Social Bases of Democracy*. Baltimore: Johns Hopkins University Press, 1981, 48-51.

¹⁰Hutchcroft, 218. He describes the Filipino state as “choked continually by an anarchy of particularistic demands from , and particularistic actions on behalf of, those oligarchs and cronies who are currently most favored by its top officials.... The personal favor and disfavor of those currently in power is a critical determinant of business success and failure.” 217-18.

criteria, such as the price and quality of their products?¹¹ In this chapter I answer these questions.

Entrepreneurs employ different strategies to make their firms succeed. Two factors determine the strategy an entrepreneur will take: her own resources and the competitive environment. The entrepreneur's resources include tangibles such as capital and real estate, and intangibles, such as special skills (knowledge of computers, tailoring), managerial know-how, and government contacts. Though entrepreneurs prefer to enter sectors where profits are easy and competitors are few, their resources and skills limit their choices. Entrepreneurs with no knowledge of computers will start businesses where such knowledge is irrelevant; entrepreneurs without access to large amounts of capital will start businesses that require little capital; and entrepreneurs without useful government contacts will enter sectors where such contacts are not needed. Thus whether or not entrepreneurs use contacts with government officials and bribery in their business is a function of whether or not they have such contacts or know people who can be bribed. For an entrepreneur without such contacts, cultivating them can be more resource-consuming than they are worth.¹²

The kind of people entering the private sector thus strongly influences the kinds of private businesses started and the extent to which those businesses engage in various types of corruption. This chapter will show that the type of entrepreneurs entering the private sector in China has changed over the past fifteen years. Though initially only people of

¹¹One author has suggested that private entrepreneurs who do business with collective- or state-owned enterprises are not operating "in the market"; that if they do business exclusively with one customer, they are not operating "in the market"; that if they choose to reduce profits in order to reduce risk, they are not operating "in the market." These criteria are not good indicators of whether or not private firms are wealth-producing. The statements seem to reflect a model of functioning markets as perfect markets, characterized by undifferentiated products, multiple buyers and sellers, perfect information, and elastic supply and demand. (Oi, Jean C. "Rational Choices and Attainment of Wealth and Power in the Countryside." In *China's Quiet Revolution: New Interactions Between State and Society*, ed. David S. G. Goodman and Beverley Hooper. 64-79. New York: St. Martin's Press, 1994, 68-9).

¹²I thank Gregory Noble for his insights into entrepreneurs' strategies.

low social status started their own businesses, as the economic reforms progressed people with higher status, better education, and better connections entered the private sector. Because these later entrants had more government contacts, they were more likely to start businesses in which such contacts could be used. This would suggest that the private economy has become more corrupt over time. At the same time, however, the second factor influencing firm strategies, the competitive environment, has mitigated this tendency.

The environment for private businesses rapidly became more competitive in the 1990s. During the 1980s and 1990s, new entrants flooded the private sector, attracted by the successes of the first private business owners. As a result, businesses with low barriers-to-entry became intensely competitive. Whereas in the early 1980s a business could be successful simply by opening its doors, by the mid-1990s firms thrived only through zealous cost-cutting and superior customer service. In addition, as more well-connected, well-educated people opened new businesses in sectors with higher barriers-to-entry, older private firms in these sectors were exposed to competition for the first time. As more firms went into sectors with higher barriers-to-entry, existing firms were no longer able to survive on government contacts alone, and were forced to begin competing by lowering costs and improving quality.

In general, owners who based their businesses on personal connections with government officials were engaged in redistributing wealth from the state to themselves. In contrast, owners whose businesses competed on price and quality were wealth-creating. In arguing that the majority of private firms competed on market criteria, I also argue that the majority were wealth-creating rather than wealth-redistributing.¹³

¹³In characterizing the majority of private firms as wealth-creating I am not denying the existence of corrupt private firms. The issue is not whether or not many such firms exist, but whether or not their activities are an accurate characterization of the private sector as a whole.

The re-emergence of private business in post-Mao China began tentatively. Private business was first encouraged only on a very small scale, in the form of “individual” businesses. In February and March of 1979, the State Council published a report of the first meeting of the Industrial and Commercial Bureau since the Cultural Revolution. This report mentioned that, according to local market conditions, and after the approval of the relevant vocational bureaus, “idle” labor could be permitted to carry out individual repair, service, or handicraft work. Workers were not allowed to leave existing jobs to engage in such pursuits, however.¹⁴

When people first began entering the private economy, Chinese had very negative images of private business. According to Marx, any income business owners received above their own salary was derived from exploiting their workers. In the words of a provincial Social Science Institute, “If an individual laborer’s capital exceeds the limit of that which can be used himself, and his employees exceed a set number... then his nature has changed... the individual worker has become an exploiter, has become a capitalist.”¹⁵ The Chinese press continued to reflect this attitude through the 1980s, though with varying consistency and vehemence. One report based on a study of private enterprises in 1988 had the following cautionary message:

¹⁴Cao Hongbing. “Zhongguo Siying Jingji Dashiji (Chronology of the Chinese Private Economy).” In *Zhongguo Siying Jingji Nianqi (Chinese Private Economy Yearbook)*, ed. Zhang Xuwu, Li Ding, and Xie Minggan. 205-227. Hong Kong: Jingji Daobaoshe, 1993, p. 205.

¹⁵Anhui Sheng Shehui Kexue Yuan, ed. *Zhongguo Xian Jieduan Geti Jingji Yanjiu (China's Current Stage Individual Economy Studies)*. Anhui: Renmin Chubanshe, 1986, quoted in Xiao Fangyang and Yu Yongdong. “Guanyu Siying Qiye de Diaocha Yanjiu Baogao (Research Report Regarding an Investigation of Private Enterprises).” *Jianghuai Luntan* (6 1988): 7-12.

If the exploitation is controlled, we can harness the positive energy of private entrepreneurs without allowing the exploitation to evolve into a system. Despite the fact that entrepreneurs take large risks to start their factories, their income is still exploitation. We need to firmly forbid, regulate, and control illegal income beyond personal labor wages.¹⁶

Thus the environment the first private enterprises entered was not a friendly one. Since they were the first private businesses, all their business relationships were with employees of state or collective firms who often did not view them as legitimate. This problem manifested itself for entrepreneurs mostly in difficulties persuading distributors to handle their products or in attracting customers. For example, a manager I interviewed at one company initially had problems selling the household appliances he manufactured. "The department stores wouldn't buy from us because we were private. It was a problem of their way of thinking," he said.¹⁷

So although small-sized private companies were legal in the early 1980s, many Chinese people felt that they should not exist. Private business people themselves blamed the government propaganda of the Cultural Revolution for the very negative images Chinese had of business people. As a man in Shanghai explained, "people have thoughts from the Cultural Revolution; they think if you have lots of money, that's bad. The government permits private business, but society is traditional."¹⁸ Some private business owners dealt with these problems by disguising the nature of their company, fearing that their customers would be unwilling to do business with a private company.¹⁹ Other entrepreneurs did not tell their peers that they had started their own business because private businesses were held in such contempt.²⁰

¹⁶Cai Wenhua, Wang Huaqing, Chen Hua, and Tang Shiguo. "Siying Qiye Fazhanzhong de Wenti yu Duice: Chuanxi Pingyuan Diqu Siying Qiye Diaocha Baogao (The development of private industry: problems and solutions -- a findings report of the west Sichuan plain private enterprises)." *Sichuan Daxue Xuebao Congkan* (40 1988): 73-84.

¹⁷guan Inian4. Interview 4.

¹⁸Interview 32.

¹⁹Interview 27.

²⁰Interview 29.

Despite this social stigma, the private economy grew at a ferocious pace. From 1981, its output increased by 18% per year, while the number of people it employed expanded by 11% per year. In the decade following 1982, more than 10% of all job-seekers in China found employment in the private sector.²¹

The rapid success of private businesses created serious confusion for many Chinese. People of low status suddenly became very wealthy. People were unsure how these despised operators of food stalls or cigarette stands had accumulated so much money so fast. In part because they already viewed these people as morally questionable, and in part because no other explanation seemed plausible, many Chinese assumed that the private businesses had acquired their modest fortunes through cheating or stealing. "State enterprise leaders don't understand why private businesses are doing so well while their own enterprises are doing poorly, so they assume the private business people must be bribing officials," explained a successful businessman.²²

One major source of corruption in the early 1980s was the two-price system, which developed as limited markets were created for some goods in the early 1980s. State enterprises manufacturing within the government production plan bought their inputs at low set prices from specified sellers, while production outside the plan (whether by state, collective, joint-venture, or private companies) was supposed to use inputs at higher market prices. By 1994, the scope of the planned economy had been reduced substantially while the market for goods and services had grown, therefore the two-price system was less of an issue. But in the beginning of the reform period, large profits could be made by buying at the plan price and selling at the market price.

For those outside the private economy, such behavior seemed a simple answer to the question of how private businesses had made their money. One article asserted that private businesses got scarce resources through connections with managers at state-run

²¹Yin Xin. "Private Sector plays vital role." *China Daily*, 9 April 1993, 2.

²²Interview 27.

firms at a price somewhere between plan and market. The article advocated using a national receipt system to try to ensure that private companies would always pay the highest market rate for their inputs. But the author of the article also revealed a common jealousy for private business owners that might explain his antipathy toward them: "not only can they buy scarce things for their family, but they can also earn ten to twenty thousand yuan a year," he complained.²³

Newspaper articles in the government-controlled press also accused private businesses of stealing from state enterprises with the help of corrupt enterprise managers. The manager in the state company would steal materials from the company warehouse, then fence them to a private company. The private company would sell the goods at market price; the two partners could then share the profits. One private entrepreneur I interviewed attributed these unflattering views of the operation of private businesses to the Chinese public's basic ignorance of the functioning of private economies. "Most Chinese people conflate a worker embezzling from his enterprise with a person running his own business. So they assume all private businesses must be corrupt," he explained.²⁴

Because of these negative images, running a private business was a low-status occupation in the early 1980s, and people who opened them tended to be of relatively low education. At the time, sources of financing were very limited, and even funds gathered from many friends and family members did not amount to much, because everyone was poor. Because of these constraints, people who started businesses in the early 1980s entered sectors of the economy with the lowest barriers-to-entry, running services such as food stalls or tailoring.²⁵

²³Xiao and Yu.

²⁴Interview 65.

²⁵For more on the social position of private business owners, see Young, Susan. "Wealth But Not Security: Attitudes Toward Private Business in China in the 1980s." *Australian Journal of Chinese Affairs* (25 1991): 115-137.

These businesses achieved rapid initial success in large part because such services were not being provided by anyone else. A clothing maker I spoke with attributed the speedy growth of his business to the dearth of competition: "my tailoring work was very well received, because during the Cultural Revolution, the clothes were plain. All the socks were black and all were seven inches long; if they were shorter or longer, they were criticized."²⁶ The state-owned behemoths were least suited to providing customer-oriented services. As a restaurant owner explained, "Lots of state enterprises don't have flexible service hours. If you're out late, the state-run kitchens will all be closed, but I'll be open, and the food will be fast and fresh."²⁷ The government was quick to recognize that these small businesses were filling a gap in the economy. A 1981 meeting of the National Industrial and Commercial Bureau stressed that individual businesses must be particularly encouraged and supported in occupations that were not provided adequately by state or collective firms, such as food, services, and repair. Only in these occupations were businesses permitted to hire "helpers" or "apprentices."²⁸

A palpable change in the political climate for private business occurred in 1988, when the State Council passed major legislation concerning the private sector.²⁹ On June 6th, the Council passed "The People's Republic of China Provisional Measures on Private Enterprises." These measures legitimized private businesses as legal entities, defining them as businesses with capital owned by an individual, with more than eight workers. Before 1988, such enterprises were referred to by a variety of names: 'large labor-hiring households', 'labor hiring enterprises' 'specialized households', or 'individual enterprises'; they did not have a clear legal status.³⁰ The 1988 measures included detailed

²⁶Interview 48.

²⁷Interview 44.

²⁸Cao, 205.

²⁹For an account of changing legislation toward the private sector, see Gold, Thomas B. "Urban Private Business and Social Change." In *Chinese Society on the Eve of Tiananmen: The Impact of Reform*, ed. Deborah Davis and Ezra F. Vogel. Cambridge: Harvard University Press, 1990. 163-165.

³⁰'Gugong dahu', 'gugong qiye', 'zhuan ye hu', 'getihu'. Lu Xueshu and Li Ding. "Quanguo shouci siyou qiye chouyang diaocha ji shuju fenxi (Analysis of the first all-China sample survey of private enterprises)."

regulations about the opening and closing of private businesses, their rights and obligations, labor management, tax payment, and supervision. Hereafter, the private economy was to be considered a supplement to the socialist publicly-owned economy.³¹ Of most significance for potential business owners, though, was the phrase, "the nation protects private enterprises' legal rights and interests."³² A surge of new business formation followed the passage of this legislation.³³

Entrants into the private economy were temporarily slowed, however, by the aftermath of the Tiananmen protests and massacre in the spring of 1989. After Tiananmen, the government took an anti-private business stance, blaming private businesses for the inflation that was one complaint of Tiananmen protesters. In addition, the government tried to control inflation by tightening fiscal control, making financing scarce for all companies. Following these events, the government redoubled efforts to collect all taxes due from private businesses, and to make sure businesses were operating within their legal scope.³⁴

A slew of negative propaganda toward private business owners was published immediately after the Tiananmen events. Articles advocated forcing private businesses to reinvest all profits, limiting the geographic areas and economic sectors open to private businesses, and pushing businesses to focus on exporting so as not to interfere with the 'people's economy'.³⁵ Cadres were exhorted to strengthen their supervision of the private economy to rein in "people who force people to buy and sell, bully and tyrannize the market, and drive up prices," and to reduce crimes such as "the production and sale of

In *Zhongguo Siying Jingji Nianqi (Chinese Private Economy Yearbook)*, ed. Zhang Xuwu, Li Ding, and Xie Minggan. 115-153. Hong Kong: Jingji Daobaoshe, 1993.

³¹As was the individual economy since the 1982 constitution. Ma Tongtian. "Tan Geti Siying Qiyezhu de Zuigao Zhuiqiu (Discussing the highest pursuits of individual and private entrepreneurs)." *Qiyejia Tiandi* (6 1993): 43.

³²Cao, 205.

³³For statistics on the growth of the private sector during the 1980s, see Gold, 165-170.

³⁴Zhejiang Ribao. "Woguo Jiang dui Geti Gongshanghu he Siying Qiye Jiaqiang Diandu Guanli (This nation will strengthen its management supervision of individual and private industrial and commercial enterprises)." July 30, 1989.

³⁵Wang Yuanjing and Ding Jie. "Lun Siying Qiye de Jueqi (Discussing the Sudden Rise of Private Enterprise)." *Liaoning Daxue Xuebao* 95 (1 1989): 12-14.

poisonous goods.” “the printing and retailing of reactionary, pornographic books, pictures, and recordings,” and “using gambling or other illegal methods to get profit.”³⁶

By 1991, the push against private businesses had ended, and the tone of the press had become somewhat more sympathetic. While articles chided Chinese for not respecting entrepreneurs, at the same time, they blamed entrepreneurs’ behavior and attitudes for their low status. “We must help people understand the nature of the individual enterprise so they will respect them. At the same time, the entrepreneurs should establish thoughts of self-respect, self-love, self-possession (dignity), and self-strengthening.”³⁷

A second major turning point for the private economy occurred in January of 1992, when Deng Xiaoping left the northern capital of Beijing and toured southern China to assess the reforms. Deng wholeheartedly endorsed economic development in the south. He announced:

The revolution liberated productive forces, and the reforms have also liberated productive forces. The standard to judge whether something is ‘capitalist’ or ‘socialist’ is whether or not it increases the productive forces of the socialist society, whether or not it increases the comprehensive strength of the socialist country, and whether or not it helps raise the people’s standard of living.³⁸

This tour signaled strong government support for private business. As a result, in 1992 the rate of new business openings returned to its pre-Tiananmen level. Chart 2.1 summarizes the pattern of new entrants over time in the sample in this study.³⁹

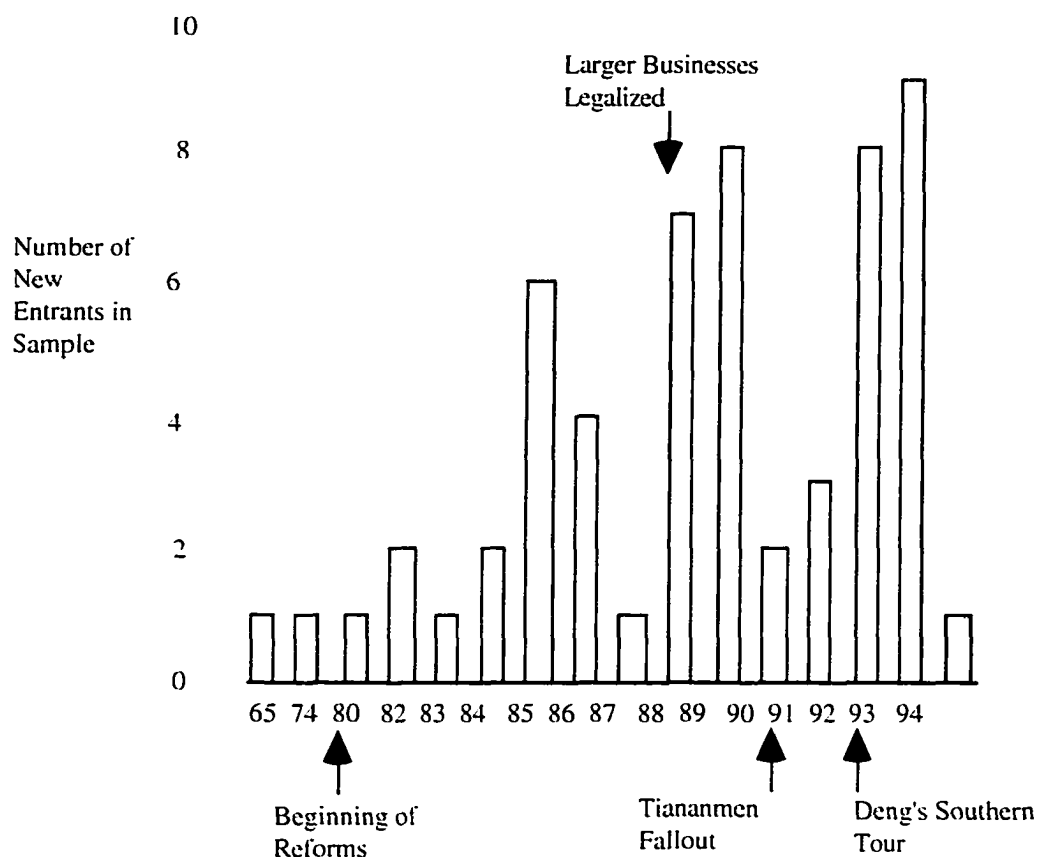
³⁶*Zhejiang Ribao*, 1989. See also Lam, Willy Wo-lap. *Hong Kong South China Morning Post*, 24 August 1989a, 10; Lam, Willy Wo-lap. “CCP to bar entrepreneurs from membership.” *South China Morning Post*, 2 October 1989b, 1; Ma Zemin. “The working class as a political force against privatization.” *Guangming Ribao*, 2 November 1989; Wang Jue. “Dui Getihu, Siying Yezhu ji Qi Gugong Shixing Qiangzhi Yanglao Baoxian (Implement Forced Old-Age Insurance for Individual and Private Business Owners and Their Workers).” In *Shanghai Jingji Nianjian (Shanghai Economic Yearbook)*, ed. Xiao Che, 88-89. Shanghai: Shanghai Shehui Kexueyuan Shanghai Sanlian Shudian, 1990.

³⁷Wang Tianjin. “Dangqian Yingxiang Geti Jingji Fazhande Wenti yu Duice (The current problems and countermeasures influencing the development of the individual economy).” *Yuegang Qiyejia Bao*, September 4 1991.

³⁸Lu.

³⁹Chinese accounts of the development of private business speak of waves of new entrants, but differ slightly as to when those waves were. One government cadre cited four waves in 1979-1980, 1984, 1987-1988, and 1992-1993 (interview 061793). Another source identified 1982-1984 and 1987-1989 as periods of rapid growth, but 1989-1992 as a period with a disconnected character of growth and decline Bai Zhiying.

Chart 2.1: New Entrants to Private Sector by Year in the Sample



“Dui Geti Siying Jingji de Diaocha yu Sikao (Investigation of and reflections on the individual and private economy).” *Jingji Shijie* (7 1993): 69-71. A U.S. study conducted in 1988-1990 reported surges in private business registrations in 1979-1980 and 1984-1986, with a third beginning in 1988 (Wank, David. “From State Socialism to Community Capitalism: State Power, Social Structure and Private Enterprise in a Chinese City.” Dissertation, Sociology Department, Harvard University, 1993).

There are several problems with statistics about new entrants as generated by Chinese government institutions and academia. The Chinese law distinguishes ‘private’ companies from ‘individual’ companies based on whether or not they have more than eight employees: ‘individual’ companies have fewer than eight. Thus Chinese government and academic statistics do not distinguish between brand new entrants and firms that have been in business for years but exceed eight employees in a given year and register as ‘private.’ These companies should not be considered new entrants into the private economy. Another problem is that these data record when firms officially register as private businesses, not when their number of employees actually exceeds eight, which is earlier in most cases, but later in some. One survey reported that 28% of private enterprises polled had fewer than eight employees when they first registered (Lu). A final problem is that the data do not include firms that are falsely registered as collective or state-owned.

Because the legal and social status of the private economy changed during the first fifteen years of the reform period, so too did the characteristics of the entrepreneurs who chose to enter this sector. As the political and social milieu for private businesses became more propitious, two things happened that changed the competitive environment: the boundary of the private economy was pushed outward into higher barriers-to-entry sectors, and the core of the private economy in low barriers-to-entry sectors became intensely competitive. In addition, because legislation had created a solid legal foundation for the businesses, better educated people of higher social status were willing to start their own businesses.⁴⁰

The influx of people of higher social status into the private economy after 1987 can be observed on several dimensions in my sample. Most college-educated entrepreneurs started their businesses after 1987 (Table 2.1). Similarly, the percentage of new entrepreneurs who are Party members is more than double in the later period compared with the earlier period (Table 2.2). Finally, if one compares the status of the job held just before entering the private sector, in the earlier period the sample is split evenly between those with higher status jobs (managers in state or collective enterprises, Communist Party cadres, government employees, and professors, researchers, or teachers) and those with low status jobs (workers or unemployed). After 1988, those with low status jobs comprise only one quarter of the new entrants (Table 2.3).⁴¹

⁴⁰Gold noted that people of higher social status began entering the private sector as it seemed less likely that private business would be banned. 171-74.

⁴¹Though Table 2.3 shows an absolute decline in people with lower-status jobs, this is most likely a result of the sampling bias. The academics who helped me locate entrepreneurs to be interviewed knew disproportionately more highly educated or successful entrepreneurs. Similarly, government officials referring interviewees to me preferred that I interview more "impressive" people, thus selecting either successful entrepreneurs or well-educated entrepreneurs. Since those entrepreneurs in business longer tend to have more successful firms, the sample is biased against poorly educated people who started their business later in the reforms.

Table 2.1: Education Level by Date Entered Private Sector (%)

	1963-1987	1988-1994
High school or less	63	34
Junior college or more	37	66
N Cases	19	38

Pearson chi-square 5.7, DF 2, probability =.059. All tables present data on entrepreneurs in this study.

Table 2.2: Party Membership by Date Entered Private Sector (%)

	1963-1987	1988-1994
Not in Party	89	76
Party Member	11	24
N Cases	19	38

More than 1/5 cells sparse. Pearson chi-square 3.453, DF 2, probability<.18

Table 2.3: Status of Previous Job by Date Entered Private Sector (%)

	1963-1987	1988-1994
Low Status	50	24
Higher Status	50	76
N Cases	18	37

Pearson chi-square 6.4, DF 2, probability=0.04.

The entrepreneurs entering after 1987 were not only from a different background than their predecessors, they also started different kinds of companies. While only 5% of firms opened 1987 or earlier were high technology, 30% of those opened 1988-1991 and 22% of those opened 1992-1994 were. The clearest dividing line occurs in 1988. Fewer than 10% of the high technology firms were opened before 1988, though nearly 40% of low technology firms were opened before 1988 (Table 2.4).

Table 2.4: Date Entered Private Sector by Technology level (%)

	1963-1987	1988-1994
Low Tech	95	74
High Tech	5	26
N Cases	19	38

The changing nature of the firms can be seen in terms of barriers-to-entry more generally. The firms were scored on their financial, technological, and legal barriers-to-entry.⁴² As Table 2.5 shows, there is a distinct migration towards higher barriers-to-entry in the later period. The start-up capital of the firms also shows a clear increase over time. Regressing the log of inflation-adjusted start-up capital on the year started yields a coefficient of 0.376.⁴³ In concrete terms, this regression estimates that for every year that passed in the reform period, real start-up capital more than doubled.

Table 2.5: Barriers-to-entry by Date Entered Private Sector (%)

	1963-1987	1988-1994
None	84	16
Low	11	58
Medium	5	18
High	0	8
N Cases	19	38

More than 1/5 cells sparse. Pearson chi-square 25.18, DF 3, probability =0.000

The changing nature of private businesses was recognized by Chinese observers in the government and the press. An internal county government memorandum called the increasing use of technology by private businesses in cooperation with universities “a fierce

⁴²I scored barriers-to-entry of the business based on a combination of financial, technical, and legal factors. Firms scoring “low” include most services such as tailoring and restaurants, and some manufacturing, such as clothing and beverages. Firms scoring “medium” include most technology firms not requiring much capital, such as software firms, or firms that required moderate capital and technology, such as medical machine companies. Firms scoring “high” typically had a combination of high capital requirements, legal barriers, and technical barriers, for example, real estate development -- legal and financial; chemical water purification -- financial and technical; pharmaceuticals and airplane industry-- all three.

⁴³Standard error 0.088, significant at p=0.000; univariate regression $r^2 = .277$.

trend.” In non-technological fields, the report acknowledged an increased sophistication: “private businesses are beginning to go from simple value-added production to unifying production and trade.” The report also noted a sharp increase in joint-ventures with foreign firms and a corresponding increase in the foreign currency holdings of private businesses in the county: “in 1992, the foreign currency accounts of individual and private businesses reached 2.8 million USD.”⁴⁴

In a 1994 article in the *Economics Daily*, in a section entitled “Looking at someone with new eyes,”⁴⁵ the new private entrepreneurs of Sichuan were described as being distinct from their predecessors in the following ways: their development speed was faster; the scope of the enterprises was broader; the quality of the entrepreneurs was higher; the science and technology level was greater; and the managerial sphere was broader. There were 41 enterprises with yearly production worth more than one million yuan (118 thousand USD), and more than ten with yearly production greater than ten million yuan (1.1 million USD). This large size, according to the author, was quite distinct from the small scale of enterprises in 1991. “Private entrepreneurs are no longer trading odds and ends, but are doing industry, commerce, transportation, construction, science and technology, real estate, wholesale, service, and education. What the state enterprises have, the private enterprises have; what the state enterprises don’t have, the private enterprises also have,” the author extolled.⁴⁶

As the boundaries of the private economy expanded into new sectors, its core also underwent a transformation. After the earliest enterprises became successful, and the social

⁴⁴Wang Xiangjie, Liu Juliang, Shang Guosheng, Ye Xumin, and Ye Shengsong. “You Yige Yijuntuqi -- Dui Fuyin Geti Siying Jingji de Diaocha (Another force comes to the fore -- Investigation of the individual and private economy of Fuyin).” Unpublished Hangzhou Government Report (Zhonggong Hangzhou Shiwei Bangongting), 1993.

⁴⁵“*guamu xiangkan*”

⁴⁶Jingji Ribao. “Siying Qiye, Liangchu Nide Fengcai: Sichuan Xinban Siying Qiye Caifanglu (Private enterprises, show your elegant demeanor: a record of Sichuan’s newly opened private enterprises.)” Jan. 6, 1994. See also Chen Fu’an. “Yue Geti Gongshangye Shang Bannian Wenbu Zengzhang (In the past half year, the individual industrial and commercial enterprises of Guangdong have steadily grown).” *Yuegang Qiyejia Bao*, Oct. 16, 1991.

stigma less severe, business sectors with low barriers-to-entry were flooded with new entrants; consequently, they became highly competitive. The restaurant business typifies this phenomenon. As a restaurateur explained to me, "you can get fast returns opening a restaurant, and the investment is small, so the risk is small. Everyone must eat. It requires no technology or instruments, no special ability from the workers. I can depend on myself."⁴⁷ The result of these low capital and technological requirements was rapid development of furious competition. The same restaurateur lamented this situation. "There are many private restaurants. Last year was okay, but now many new restaurants have opened nearby. People like eating in new, fashionable places."⁴⁸ The level of competition in the restaurant business changed noticeably in a short time. As another restaurant owner commented, "before last year, there weren't many restaurants on the street. It was a quiet street, but there were a lot of hotels, so business was okay. Starting last year, it's been severe. People think earning money in the restaurant business is easy, and provides a stable income, so lots of people have entered."⁴⁹ Because of this surge of new businesses, by 1993, the private sector operated three-quarters of China's services, and private enterprises accounted for more than half of the nation's total in repairs, non-staple food processing, and fruits and vegetables.⁵⁰

In 1994, over half the entrepreneurs I interviewed reported business was very competitive (59%), with the remaining divided between those reporting moderate competition (23%) and little competition (12%). A small percentage of firms operated in niche markets and experienced little competition but also little demand for their products (5%).⁵¹ These statistics do not directly show that competition was based primarily on market factors such as price, quality, and service. But discussions with the entrepreneurs

⁴⁷Interview 31.

⁴⁸Interview 31.

⁴⁹Interview 44.

⁵⁰Yin.

⁵¹The three companies in this category sold quail meat, bee pollen, and boxing equipment.

provide such evidence. Overwhelmingly, the two most frequently mentioned grounds for competing were quality and price (Table 2.6). One entrepreneur characterized the favored competitive technique: "Get up early and go to sleep late."⁵² Overall, 85% of the firms competed *solely* on characteristics related to the market, while 10% competed *at least in part* on the basis of personal connections with officials. Five percent of the firms were doing poorly, and therefore were not asked to elaborate on their competitive techniques.

Table 2.6: On what basis do you compete?

Method	% of Firms that Mentioned this Method
Quality	67
Price	54
Service	21
Reputation	19
Sensitivity to customers' needs	18
Low cost	11
Personal connections	11
Not competitive	5
Advertising	4
Speed to market	2

Note: Total exceeds 100% because each entrepreneur was coded for up to three methods.

One may view these responses skeptically, assuming many people would not be willing to acknowledge they use connections. Fortunately, other indicators -- that do not rely on entrepreneurs' honesty about their own behavior -- confirm the finding that the private economy was intensely competitive. A second way of measuring the competitiveness of the private sector is to look at how private firms are viewed as business rivals. Entrepreneurs were asked with what kind of firm they primarily competed. Of those who considered private or private and collective firms their primary competitors, 90% experienced tough competition, while none reported very little competition. In contrast, of those firms competing primarily against state enterprises, only 50% reported severe competition, while 25% reported very little competition (Table 2.7).

⁵²Interview 28.

Table 2.7: Level of competition by ownership type of primary competitors (%)

	Ownership Type of Primary Competitors			
	Private	Mixed	State	Foreign
Low Competition	0	0	25	66
Medium Competition	10	50	25	33
High Competition	90	50	50	0
N cases	20	10	16	3

More than one-fifth of cells sparse. Chi-square probability <.01.

The few firms competing primarily against foreign businesses reported low or medium levels of competition, though one would expect that international firms are proficient competitors. The three firms in this category are all high technology companies. They manufacture somewhat lower quality goods than their competitors at a far lower price. These firms are able to employ university-educated workers at relatively low wages to design their products because they are located in university towns. They use even lower-paid workers in the manufacturing of these products. That the competition in sectors dominated by private business is greater than that dominated by foreign firms provides another indication that private firms are intensely competitive.

Firms that competed against state enterprises experienced less competition, but what kinds of companies competed against state enterprises? Essentially, firms that competed against state enterprises were those firms outside the core of the private economy. They were firms that did *not* provide simple services or low technology production; in other words, they were the firms opened by the better educated, better connected, later entrants into the private economy. Firms in sectors with higher financial, technological, and legal barriers-to-entry tended to compete against state-owned enterprises (Table 2.8).⁵³

⁵³See note 42 for the scoring of barriers-to-entry.

Table 2.8: Ownership Type of Competitors by Barriers-to-entry (%)

	Low Barriers	Medium Barriers	High Barriers
Private Competitors	66	29	20
Mixed Competitors	22	29	0
State Competitors	11	29	80
Foreign Competitors	0	14	0
N cases	18	21	10

More than 1/5 cells sparse. Pearson chi-square 22.707, DF 6 probability =0.001

Finally, one can look at the relationship between the date the firm was started and the type of competitor it had by 1994. While only 20% of the firms started before 1988 were competing against state or foreign firms by 1994, 56% of those started between 1987 and 1990 and 42% of those started after 1991 were competing against state or foreign firms (Table 2.9). Table 2.9 shows that those sectors entered by the earliest entrepreneurs were dominated by them by 1994. At the same time, it shows that enterprises formed after 1988 were going into new sectors, sectors still comprised primarily of state enterprises.

Table 2.9: Type of Competitor by Date Company Started (%)

	1963-1987	1988-1991	1992-1994
Private Competitors	53	39	29
Mixed Competitors	27	6	29
State Competitors	13	44	41
Foreign Competitors	7	11	0
N Cases	15	18	17

Taken as a group, these data show that the private economy grew because private companies were more efficient and provided better products and service than state firms. Private firms created intensely competitive markets in which less adept private- and state-owned firms rapidly lost market share. State enterprises, in comparison, owed their

continued existence less to competitive success than to inertia in the political economy. It is therefore inaccurate to characterize the private economy as one in which firms succeed primarily because of government connections.

Interviews indicate that the boundary areas of the private economy are experiencing the same transformation towards more market-based competition that the low barriers-to-entry core region has already undergone. High profit margins are drawing new entrants into these higher barriers-to-entry areas, just as occurred earlier in other sectors with low barriers-to-entry.

State enterprises in larger-scale retail were already feeling the pinch of private competitors in 1992. The New China News Agency described attempts by state-run firms to deal with the new competition. "Nationally, state-owned department stores are cooperating with each other to try to reduce costs to compete with privately-owned department stores. Recently, [department stores] conducted bargaining with 230 local suppliers for materials for Beijing, Xi'an, and Shanghai.... They also established a retail sale committee to exchange information on prices...."⁵⁴ But private retailers were confident in their ability to outmaneuver the state enterprises in the market, as a businessman who had recently opened a clothing store told me:

I buy from private, collective or state, according to the price. It's a market. If I pay, they sell it to me. No one is unwilling to sell to me. All it takes is having the cash. I can pay more for things and sell them cheaper because I have no go-between, no formalities, no waste.⁵⁵

A man who had left a state-owned wholesaler to start his own trading business boasted, "my old enterprise is not competition because I find the lowest price at which to buy products and they don't. I can sell at the price at which the state enterprise buys and still make a profit."⁵⁶

⁵⁴*Xinhua Xinwenshe*. "State run department stores counteract private rivals." July 25, 1992.

⁵⁵Interview 52.

⁵⁶Interview 45.

In manufacturing, a crucial difference between the new private businesses and the existing state enterprises was their economizing -- the easiest way to beat the state enterprises was simply to eliminate waste. For this reason, an entrepreneur disparaged state-owned firms as competition: "I compete with all types of firms. But I'm not afraid of the state enterprises. The minute they manufacture something, they lose money."⁵⁷ Another man emphasized the competitive difference in work habits: "We have no Sundays. Only state-owned enterprises have Sundays."⁵⁸

In technological ventures, superior product development speed and quality brought success to private firms. A man who ran a manufacturing venture saw the competitiveness of the private sector as following from personal involvement and risk. He said, "since I can't get a bank loan I have to risk my own money, so my quality is better. I compete with state enterprises, but their products are about ten years old and not up-to-date."⁵⁹ Another man estimated that state enterprises in his field took five years to develop a new product, while his company developed seven or eight new products over the same time period.⁶⁰ In the medical field, the responsiveness of private enterprises attracted the cooperation of Chinese doctors. Two entrepreneurs I interviewed said doctors were willing to give them technical advice because the state enterprises the doctors had been dealing with spent too long on research.⁶¹ The doctors were fed up with state enterprises, where "good or bad is the same."⁶²

Having examined the level of competition and competitive tactics of private businesses, one can conclude that the vast majority do not succeed through corruption. But who are the 11% of business owners who acknowledged that they use government

⁵⁷Interview 42.

⁵⁸Interview 4.

⁵⁹Interview 25.

⁶⁰Interview 33.

⁶¹Interview 25.

⁶²Interview 29.

connections as a main source of competitive advantage? It is not surprising to discover that these firms were slightly more often started by the second cohort of private business owners, those entering the private sector after 1987, because this group, more than the first cohort, *had* useful connections (Table 2.10). But are these six firms or their owners distinct from the others in some significant way? Do they consist of a hidden segment of non-competitive businesses?

Table 2.10: Government Connections Central to Competitive Strategy by Date Started (%)

	1967-1987	1988-1994
Connections Not Central	94	86
Connections Central	6	14
N Cases	18	37

The chi-square is not statistically significant, but this table shows a point estimate.

Of the six firms that compete in part on personal relationships with government officials, there are three classic examples of rent-paying, one in the real estate industry, two in computer importing. In both of these industries, government regulations have created economic rents.⁶³ In 1994, entry into the real estate business was restricted; private businesses were not legally allowed to speculate in real estate or to develop properties, and were allowed to act only as brokers.⁶⁴ The private real estate development company in this

⁶³There are other sectors as well in which personal contacts with government officials are particularly useful. In a study of private wholesale traders in Xiamen, David Wank (*From State Socialism*) found that entrepreneurs' personal connections with officials was key to firms' success. Business owners that used connections to source materials from large state enterprises or sell to large state enterprises could grow their firms more quickly than traders without such connections. As market competition increases for the traders and their customers, price, quality, and service should gain in importance relative to connections. Other researchers have noted that private trading companies in particular were targeted by the government after the 1989 Tiananmen protests because they were a channel through which state-owned goods were illegally being sold at market prices. The attempt to close these firms was blocked by cadres at the local level who were profiting from them (Young, Susan. "Private Entrepreneurs and Evolutionary Change." In *China's Quiet Revolution: New Interactions Between State and Society*, ed. David S. G. Goodman and Beverley Hooper. 105-125. New York: St. Martin's Press. 1994, 120). Thus, entrepreneurs engaged in explicitly illegal activities were in great need of local cadre protection because their businesses had no legitimate claims to existence. See Chapter Three for discussion of the legal environment for entrepreneurs.

⁶⁴Interview 9.

study had paid a fee to his friends in the local government to be allowed to register as a state-owned enterprise. As the interview excerpt below shows, the entrepreneur gained access to government projects, financing, and information through his personal relationship with the official, and through bribery:

Lots of business is through personal connections. Sometimes government officials help me find business -- there are more big projects from the government. I have long-term personal relationships with people in the Industrial and Commercial Bureau. The people in these bureaus know lots of people, so their connections are very broad, and they have very good information. If I have problems, like I need more investment, they will hook me up with someone.

Question: Do you give them a 'sales commission' (bribe)⁶⁵?

In the government, it depends on the individual official whether or not they will take a 'sales commission'. Very few people take it. Also, it depends on whether or not you offer it. If you give it to them directly, it might hurt them, so you give it to their kids or wife; you find ways to improve their lifestyle through gifts. I would never do anything to jeopardize my official friends. I hope they get promoted to higher levels.⁶⁶

The other business in which government connections were crucial was the importing of computers. Again, state regulations in the form of import tariffs created economic rents. The computer importers used personal connections with government officials to evade importing duties. Those importers with the best connections evaded the most duties, and therefore could re-sell the computers at the lowest price (or highest profit). The quality of the connection related to the distance from the corrupt official. For one entrepreneur, this was measured by the number of people between the himself and the child of a high-ranking Communist Party cadre. Each person, starting with the cadre's child, added a bit to the price of the computers.⁶⁷ Another computer importer interviewed estimated that 90% of computers imported to China are smuggled in this way and do not go through proper customs channels.⁶⁸

⁶⁵..hui2kou4"

⁶⁶Interview 47.

⁶⁷Interview 8.

⁶⁸Interview 45.

Not all business owners who mentioned that their contacts helped them compete were successful. Two of the six entrepreneurs who used personal relationships with government officials as a central component of their competitive strategy did so because their firms were in trouble; they used their connections as a non-optimal, final effort to stay in business. Unlike the classic rent-payers described above, their connections did not enable their businesses to thrive.⁶⁹ For example, the experiences of a computer retailer show a market evolving away from rent-seeking toward profit-seeking. Initially, the retailer had registered as a state-owned enterprise, to avoid the stigma and legal hassles of being a private firm, by paying a 'management fee' to the Science Commission. He remembered this period fondly: "When I first started, no one could compete with me; I earned a lot of money." But when more private firms entered the economy in 1992, his competition became severe. "There were only three computer retailers in my town in 1990, but in 1992 there were 25. Now there are 40, and the population is only 200,000!" he said.

By 1994, the main problem he faced was competition. "Being registered as a state-owned enterprise is no longer helpful because the policy no longer differentiates between state, collective, or private, nor do people's thoughts." Because the false registration was no longer useful, he planned to end it and stop paying the 'management fee'. But because his business had never been competitive, when a market economy developed, he was forced to try to survive by using his connections in the government. "I use my personal relationships to compete now; I go through my friends in the government to influence the purchases of government agencies." The enterprise stagnated, however; although the entrepreneur boasted that the number of his employees had increased from four to ten in the first six months of operation, four years later he still had only ten employees. He also declined to report the monthly gross of the firm because he was embarrassed it was so

⁶⁹Interview 53.

low.⁷⁰ For this man's business, the strategy he had initially adopted, rent-paying for an existing monopoly in the local market, became less and less successful as the monopoly was no longer enforced, and government policy permitted new entrants. In this changed environment, he tried to switch to a new strategy based on "cashing in" government connections. But this strategy has not been successful either. Most likely, he will either choose to pursue a strategy based on market competition, or be forced to close the business.

This entrepreneur points to changing government regulations and societal attitudes as influencing the environment for private business. The expansion of the market itself tended to create positive feedback and reinforce market-based behavior. As the laws became clearer and market-oriented, the opportunities for using government contacts diminished. The retreat of non-market practices in the face of the growing market economy can also be observed in the sourcing of production inputs. One firm had to buy ration coupons for iron from state enterprises in its first few years in business, but later no longer needed them because iron rationing had ended.⁷¹ By 1994, only 5% of those interviewed relied on connections to get production inputs.

Similarly, interviewees reported that the attitude of customers had changed over the course of the reforms. "When I first started, all the clothing shops were state-owned, and they didn't want to buy from private businesses, so I relied on my friends in them to buy my clothing. But this is no longer the case, now I don't rely on friends to sell."⁷² Another man reflected on the change, "The more competition, the better. Competition is to my advantage. Before, people relied on personal relationships, so the market is better for me. This way, each company depends on its own reputation and quality."⁷³

⁷⁰Interview 62.

⁷¹Interview 22.

⁷²Interview 19.

⁷³Interview 42.

As China's economy became more market-based during the reforms, firms of all types began to look to reducing costs and improving their products. Firms and consumers developed preferences for cheaper, higher quality goods, supplied with better customer service. Though government connections still played a large role in the Chinese economy, market-driven competition was eroding the value of these connections in many business sectors.

In addition to this evidence based on interview materials and statistics, strong macro-economic evidence exists to support the contention that the private economy is not predominantly or primarily profiting from corruption. The extent to which the private economy is engaged in the privatization of state resources is the extent to which growth in the private economy and growth in the state economy is a zero-sum game.⁷⁴ Profits that accrue to the private economy through corruption result in equal losses to the state economy. To claim that corruption is a mainstay of the private economy, one must also argue that growth in both the private economy and the state-owned economy over the past decade and a half has been driven primarily by increases in the productivity of or investment in state-owned enterprises. Few would argue that state enterprise productivity or investment has increased to that extent, if at all.⁷⁵ Sustained growth in an entire economy cannot be explained by corruption, because these behaviors are profitable but not productive.

⁷⁴I leave out the collective sector in the following discussion for clarity, but it can easily be included. The collective sector, including township enterprises, has also grown very fast in the past decade and a half. I would argue that this sector succeeds because it is highly efficient in a competitive market. To argue that its growth is a result of rent-paying or rent-receiving falls into the problem discussed below. Namely, one is left arguing that China's economic growth has come from gains in productivity or investment in the state enterprises.

⁷⁵See, for example, Koo, Anthony Y. C., Elizabeth Hon-Ming Li, and Peng Zhaoping, "State-Owned Enterprise in Transition." In *China's Economic Reform*, ed. Walter Galenson, 277. South San Francisco: The 1990 Institute, 1993; and Wong, Christine P. W., Christopher Heady, and Wing T. Woo, ed. *Fiscal management and economic reform in the People's Republic of China*. New York: Oxford University Press for the Asian Development Bank, 1995.

CONCLUSION

That the private sector in China is predominantly wealth-creating rather than wealth-redistributing has significance for its political impact. Each of the following three chapters discusses the political beliefs and behaviors of private business owners. In each chapter, some of these beliefs and behaviors are possible only because private businesses are for the most part wealth-creating.

For example, in Chapter Three I argue that the suggestions and complaints of private business owners have provided the state with a blueprint for the creation of market institutions. If private companies merely redistributed assets from the state sector, they would have no need for market institutions, and would probably oppose them. Furthermore, in Chapter Four I show how private entrepreneurs rejected Party images of themselves as morally suspect, disputed Party pronouncements regarding their limited potential for growth, and questioned the competence and legitimacy of the Party's rule. Were their businesses heavily dependent on personal relationships with Party cadres, they would be unlikely to be so critical of the Party. Finally, because in general private entrepreneurs did not rely on connections with Party cadres to do business, entrepreneurs were able to spurn the organizations the Party established to monitor and control them. As a result, their firms were a haven from state control, which I discuss in Chapter Five.

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CHAPTER THREE: INSTITUTIONS OF THE MARKET

INTRODUCTION

Perhaps the most significant consequence of the fact that private firms were predominantly wealth-creating was their role in the creation of market institutions. Because the private economy was market-oriented, private firms on the whole stood to benefit from the creation of institutions to regulate and support a market economy, and private entrepreneurs worked to create them. In addition, the wealth private firms created motivated government officials to pursue the political changes the entrepreneurs sought.

A market economy requires regulatory and supportive institutions to function smoothly. For example, it requires legal institutions to enforce contracts and define property rights; financial institutions to amass and distribute capital in the economy; and institutions that enforced accounting standards so that investors can evaluate firms. For the state, tax institutions capable of evaluating and collecting taxes owed are also needed. The extent to which these institutions are constructed is a crucial determinant of the successful development of a market economy. Without taxation institutions, the survival of the state itself is threatened by its inability to earn revenue. Inadequate financial institutions jeopardize economic growth through high transaction costs. Inadequate legal protections for property are a disincentive for investment.¹

Few scholars have studied how these market institutions are formed in developing nations, however. Neoclassical economics ignored the importance of these institutions in economic development, and many mainstream economists continue to regard the establishment of market institutions as a straightforward task. For example, in advising

¹North, Douglass C. and Barry R. Weingast. "Constitutions and Commitment: the Evolution of Institutions Governing Public Choice in Seventeenth-Century England." In *Empirical Studies in Institutional Change*, ed. Lee J. Alston, Thrainn Eggertsson, and Douglass C. North. 134-165. Cambridge: Cambridge University Press, 1996. 135.

Eastern European governments. Jeffrey Sachs has advocated setting up all the institutions required for a market economy in one or two years. In his view, market regulatory institutions are much like turn key manufacturing plants -- they can be imported from abroad by policy makers, unpacked, and turned on. Reflecting the neoclassical perspective, Sachs' focus is on dismantling socialist institutions. The private sector needs liberation from the government, in his view; he advocates that policy makers in Eastern Europe "set the private sector free by removing bureaucratic restrictions."² Sachs does not expend much thought on the political difficulties of constructing new institutions. Similarly, he does not worry about the need for the state to tax and regulate the private sector that he hopes will become dominant.

Historical studies that take institutional development more seriously reveal differences in who creates market-oriented institutional change, who opposes it, and for what reasons. In their study of Stuart England, Douglass North and Barry Weingast focus on the issue of legal guarantees for property rights. They see legal and representative institutions as a way for a regime to make a "credible commitment" to wealth holders that it will not expropriate their wealth, whether by changing property rights (as in the case of setting up new monopolies by fiat), by failing to repay private loans to the state, or by engaging in arbitrary taxation. Though North and Weingast acknowledge that it is possible for a regime to make such a commitment by establishing a reputation for not expropriating, they contend that a more robust solution is to enact institutional change which renders expropriation very difficult.³ The authors argue that in the case of Stuart England, wealthy individuals forced the crown, sometimes violently, to change political institutions such that the government was incapable of large-scale

²Sachs, Jeffrey. "Poland and Eastern Europe: What Is To Be Done?" In *Foreign Economic Liberalization: Transformations in Socialist and Market Economies*, ed. Andras Koves and Paul Marer. 235-246. Boulder: Westview Press, 1991, 237.

³North and Weingast, 135-9.

expropriation. These institutional changes included a more powerful Parliament and a more independent judiciary. A stronger Parliament meant that wealthy individuals could protect themselves from the government through their own representatives in the government, while an independent judiciary defended property rights against the crown's opportunism. In this case, wealth holders acted in opposition to a predatory state by themselves creating political changes.⁴

In contrast to North and Weingast, political scientists looking at the development of market institutions have paid more attention to the impact of the development of market institutions on the coalitions which support the regime. Stephen Haggard and Robert Kaufman note that the private sectors in Mexico and Taiwan provided incentives for their governments to establish stronger property rights and other institutional facilitators of the market. The private sector was an important political ally for market-oriented reform, counterbalancing opposition in the state-owned sector. They point out that the existence of a robust private sector prior to market-oriented reforms meant the supply response to the reforms was rapid and strong, which gave the state an immediate economic pay back. In contrast to North and Weingast, Haggard and Kaufman argue that in Mexico and Taiwan the states willingly constructed market institutions for their own benefit. In these examples, opposition to the creation of market-oriented institutions came from state-owned enterprise managers and workers.⁵

The historical cases that Kiren Chaudhry examines exhibit the reverse of the problem North and Weingast focus on (though they do acknowledge the problem).⁶ Chaudhry is concerned with the problem of some business owners gaining too much

⁴Ibid., 158-64.

⁵Haggard, Stephan and Robert R. Kaufman. *The Political Economy of Democratic Transitions*. Princeton: Princeton University Press, 1995. 273-4.

⁶They phrase it as the problem of the business class taking over the rent-seeking behavior of the state. 150-1, 162. Though Chaudhry says her cases show the struggle of the state against the business class, it is in fact the state against the dominant part of the business class. Her argument ignores those business owners who were hurt by the behavior of monopolists and hoarders.

power and themselves expropriating monopolistic or oligopolistic rents. In this situation, a few powerful businesses expropriate from excluded businesses and from the consumer. Chaudhry sees market institutions as the means through which the state controls this behavior. She shows how, in the first half of the twentieth century, the business classes in Saudi Arabia and Iraq fought their respective governments' attempts to establish market institutions to break monopolies, prohibit hoarding, and limit speculation.⁷

In these instances, the state and the business class were engaged in a power struggle in which market institutions were a weapon wielded by the state. Chaudhry argues that business classes in developing nations are often not political supporters of the regime, not necessarily for economic reasons, but because they are from different ethnic, linguistic, or religious groups than the rulers. Consequently, rulers try to replace existing business classes with new classes comprised of their political allies.⁸ Elsewhere, she argues that rulers in developing nations have often chosen to nationalize industry because they were unable to win this struggle -- because it was administratively simpler for them to own production outright than to manage it indirectly through market institutions.⁹ Thus Chaudhry shows how the emergence (or non-emergence) of market institutions can be driven by a government's political situation, which in developing nations has often pitted rulers against powerful business owners.

⁷Chaudhry, Kiren. "Economic Liberalization and the Lineages of the Rentier State." *Comparative Politics* (October 1994): 1-25., pp. 3, 12-15.

⁸Chaudhry, Kiren Aziz. "The Myths of the Market and the Common History of Late Developers." *Politics and Society* 21 (3 1993): 245-274, pp. 255-6; Chaudhry, "Lineages," 13, 15. Though North says that states may be forced to grant more favorable property rights to powerful constituents who might otherwise support an opposition, he does not note the opposite -- the tendency of states to use unfavorable property rights to weaken powerful citizens, and to strengthen potential supporters. North, Douglass C. *Structure and Change in Economic History*. New York: W. W. Norton & Company, 1981, 27-8. For example, the Tokugawa shoguns' scheme of requiring daimyo to reside in Edo every other year drained these lords of their wealth and thus checked their political threat. The enforced opulence of the Versailles court is a parallel example.

⁹Chaudhry, "Myths of the Market," 250, 255-7. North did remark that rulers have often granted monopolies rather than create competitive situations because taxes are easier to monitor and collect than with more efficient property rights (North, 28).

In this chapter, I take a close look at the evolution of market institutions in China. I focus on the three market-related institutions that had the most direct influence on private businesses: banking, tax, and legal institutions. At the start of the 1980s, all three of these institutions were designed to operate in conjunction with a state-owned, planned economy. Because of this, they were in various ways incompatible with, or underdeveloped for, operation in the context of a market economy. Over the course of the 1980s and '90s, they all became more suited to the market.

A brief overview of these institutional changes is warranted before further discussion. During the 1980s and 1990s, private firms in China suffered under a banking system oriented exclusively toward supporting state-mandated investment in state-owned firms. However, private businesses used personal connections (with a bit of subterfuge) to "work around" this system, both by getting loans despite the banks' policies, and by developing an informal -- and often illegal -- financial network that redistributed capital from government banks and state enterprises to private firms. During the 1980s and 1990s, the government recognized the need to reform the banks. However, the existing banking system was a crucial prop in supporting the bulk of the state-owned firms against bankruptcy. Since bankruptcy would mean loss of jobs for over 100 million workers, the central government continued to postpone bank reform through the mid-1990s. Furthermore, local governments benefited from the flow of soft loans to state-owned businesses under their jurisdiction -- thus pressured banks to continue such lending. In this sector, then, private businesses created some changes in how existing banks operated with respect to them, but did not create fundamental change. However, private firms were at the heart of a parallel, informal financial market that served the developing market economy.

In the cases of taxes, in the early 1980s, private enterprises chafed under exactions that were excessively high, imposed arbitrarily, and biased against private firms.

Initially, private businesses used personal connections to work around this tax situation. Later, as private business became an increasingly important source of revenue for local government, some local officials strove to encourage their growth by easing their tax burden. In this way, in some areas local officials and private businesses developed alternatives to the official tax policies issued by the central government, alternatives that were more suited to a market economy. During the 1990s, the central government began to put its stamp of approval on these de facto local changes by altering central government policy in accordance with them. Hence, in the case of taxation, market-oriented institutions did not emerge out of the minds of central policy planners, to be imposed on the country from above, but instead emerged from below through local accommodations between private business owners and government officials.¹⁰

Finally, reform of legal institutions took its own slightly distinct course. As with taxation and banking, at the beginning of the reform period, the Chinese state lacked the legal institutions required to sustain a market economy. In contrast to the taxation and banking systems, China's legal system was not merely unsuited to the market, it barely existed at all. Creation of legal institutions therefore represented the greatest challenge to the Chinese state. However, the Communist Party had a powerful motive to strengthen business law -- to burnish the Communist Party's image by reducing corruption among Party cadres and government officials. At the same time, stronger property rights enabled the central government to protect its financial interest in the private sector by reducing the exactions of local officials. By making many of the taxes and fees assessed by local officials illegal, the central government could protect the private sector for its own uses.

¹⁰Policy initiatives in post-Mao China have frequently emerged "from below." The central government assesses the merits and demerits of new illegal behavior in a few localities before deciding whether to legalize it nationally or to quash it. For changes from below in policy toward the private sector, see Liu, Ya-Ling. "Reform From Below: The Private Economy and Local Politics in the Rural Industry of Wenzhou." Dissertation, University of Chicago, 1991; Wank, David L. "The Institutional Process of Market Clientalism: *Guanxi* and Private Business in a South China City." *China Quarterly* (147 1996): 820-838.

Finally, private businesses had a powerful ally in their quest to rectify the state's legal deficiencies. Foreign companies and governments added their voices to the complaints of private business owners. Thus, although creation of business law was a daunting task for the state, it nonetheless made noticeable steps toward this goal during the 1990s. Many kinds of law are helpful in the regulation of markets: laws regarding property rights, contracts, labor, liability, and pollution, among others. In this chapter I focus on two areas of the law which are most fundamental to basic business operation: property rights, including intellectual property rights, and contract enforcement.

The development of these three institutions reveals contrasts with the literature described above. First, I find that there were many actors involved in the formation of market institutions. Private entrepreneurs, the central government, foreign corporations, local government, state- and collective-enterprise managers, and foreign governments each played a role in the development of these institutions. The development of different institutions had different consequences for actors, and therefore they supported, opposed, or were indifferent to institutional development according to those consequences. Thus, while foreign corporations joined Chinese private entrepreneurs in pressuring the government to strengthen intellectual property rights and contract enforcement, these foreign firms were unconcerned about discrimination against private ownership in the domestic tax code. Though I discuss the behavior of many actors in this chapter, the most detailed discussion concerns the motives and actions of private business owners, who are, after all, the subject of this study.

Second, in all three cases, reform occurred because government officials were motivated for various reasons to institute the changes.¹¹ Private business owners never

¹¹This argument therefore permits a significant role for elite-level economic policy debates and power struggles in determining which de facto policy changes were endorsed and which were opposed, and which private entrepreneurs' policy demands were accommodated, and at what pace. Fewsmith argues that elite-

forced the state to implement market-oriented changes. Compared with the businessmen of Stuart England or twentieth-century Iraq, China's business owners were relatively weak politically. The speed of institutional change in China thus depended in part on the costs and benefits to the state. For example, the state was slow to end preferential bank loans to state-owned enterprises in part because of the political costs of state enterprise bankruptcy.

Third, in many cases, institutional innovations occurred informally and locally before they were codified in national regulations. Rather than emerging full-blown at the center, institutional change in China often occurred from the bottom up, incrementally, and illegally. Thus, while floating rate loans were only legalized nationally in 1984, private firms in one area of China loaned money at floating rates beginning in 1981. Similarly, while tax rates for private firms were twice the rate for collective firms during the 1980s and early 1990s, many private enterprises registered falsely as collectives, creating a de facto tax system that did not discriminate against private ownership.

Fourth, though the essence of a market economy is impersonal exchange, and the use of personal connections is often viewed as being at odds with market exchange, I argue that private business owners' use of personal connections actually facilitated the development of these market institutions.¹² Personal relationships abetted market exchange because they reduced transaction costs in an environment in which market exchange was illegal. The illegality of market exchange raised information costs: buyers

level economic policy struggles played a major role in policy shifts, though he also notes that provincial leaders had some discretion in implementing policies (Fewsmith, Joseph. *Dilemmas of Reform in China: Political Conflict and Economic Debate*. Socialism and Social Movements, ed. Mark Selden. Armonk, NY: M. E. Sharpe, 1994, p. 210).

¹²Increasingly, the role of social relationships and non-economic structures in undergirding economic exchange is recognized. See, for example, Granovetter, Mark and Richard Swedberg, ed. *The Sociology of Economic Life*. Boulder: Westview Press, 1992; Powell, Walter W. and Paul J. DiMaggio. *The New Institutionalism in Organizational Analysis*. Chicago: University of Chicago Press, 1991; Wank argues in a similar vein that Chinese private entrepreneurs' connections with officials aided marketization by improving resource allocation, increasing the predictability of the business environment, and encouraging the flow of market information. He does not discuss the development of market institutions, however (Wank, "Market Clientalism").

could not easily find sellers, and vice versa. Furthermore, buyers and sellers needed to know that their potential business partner was not going to report the illegal activity when proposed. Networks of friends and relatives provided low-cost information about the existence and trustworthiness of business partners. For instance, personal relationships permitted the creation of an illegal, market-based financial sector. Though it was illegal for state and collective enterprises to loan money to private firms, many nonetheless loaned to entrepreneurs who were friends or acquaintances.

Fifth, though the literature described above treats the state as a unitary actor, I find that the structure of the Chinese government was crucially important in the development of market-related institutions. Because provincial and lower-level governments had flexibility in how they enforced central government policies toward the private sector, the development of market institutions, and thus the climate for private enterprise, varied tremendously across China. The variation in business climate motivated businesses in areas with poorly-developed market institutions to move to areas with more fully-developed institutions. During the reform period, provincial and lower-level leaders came to recognize that their actions could deter the growth of local businesses and drive them away, or could foster their growth and also attract businesses from other areas.

Though North notes that competition from other states or other possible rulers within the state (potential usurpers) constrains rulers in their extraction of monopoly rents from their constituents, he does not discuss the much more intense competition created by the presence of multiple sub-governments within a polity.¹³ This competition is more intense because the costs to a business of moving within a country are lower than the cost of moving to a different country or of overthrowing the ruler. This competition was an important factor aiding the development of market institutions in China.

¹³North, 27.

Sixth and finally, the degree of change required to construct market-oriented institutions affected their rate of adoption. The scholars discussed above do not make strong distinctions among market institutions. For example, North and Weingast do not discuss whether creating an independent judiciary was more or less difficult than changing the structure and power of Parliament. In looking at the changes in China's institutions, however, it is clear that, for example, serious modification of the tax system was a far smaller task than the wholesale creation of a legal system. Thus the scope of institutional change required affected the speed with which the institutions emerged.

BANKING

The banking system of the early 1980s was designed to serve a planned economy, not a market economy. Banks were repositories of primarily government funds; they loaned money when instructed to by government agencies, for government projects. They were therefore not responsible for loans that were not repaid, and did not consider return to capital or risk in their loaning.

Because private businesses were not beneficiaries of planned government development, they required commercial banks -- banks that would give small-scale loans to businesses based on market criteria: collateral, profitability, and payment of higher interest rates. One might imagine that both central and local governments, once they realized that private firms were more profitable than state-owned firms, would gladly shut off loans to money-losing state enterprises, and funnel capital to private entrepreneurs. On the whole, though, this did not happen.

Bank reform in China was relatively slow for three reasons. First, the scope of the institutional reform needed was large. Change in the banking system required the construction of totally new institutions: a commercial banking network. Existing banks in China were designed primarily to carry out the functions of a central bank, and had

none of the capabilities nor agenda of commercial banks: to evaluate and administer loans, to attract deposits, and to do these with the criteria of making a profit. Rather than attempt to reform existing banks, the central government decided to create new banks to serve as commercial banks. In the short run, however, existing banks served as commercial banks.

A second and more important factor hindering reform in the banking system was that the “losers” in bank reform were evident: state enterprises and their workers. Bank reform meant taking loans from state enterprises and giving them to private businesses: it was a zero sum game, with benefits to private entrepreneurs showing up immediately as losses to state firms. Bank reform thus involved direct choices between the dying state economy and the growing non-state economy.

Because of this zero-sum game, bank reform provided both benefits and costs to the government itself. The potential political cost of bank reform stemmed from the damage it might do to state enterprises. Although the government realized that a large proportion of state-owned companies were unreformable, and would continue to be a drain on the national economy, these companies nevertheless employed millions of workers. As the reforms took root, and the economy grew, the situation for these workers perversely became more dire. While new jobs opened in township and village enterprises, foreign companies, and private firms, skilled workers, workers with the desire to get ahead, and educated workers gradually deserted the state sector for higher-paying or more rewarding jobs in the non-state sector. Hence an increasingly high proportion of the workers remaining in state companies were unemployable: because they lacked skills or motivation, or were simply too old. Consequently, wholesale closing of state firms, the government feared, would result in enormous, politically destabilizing social dislocation. Because of this political cost, the central leadership

continued to give bankers a mandate to provide loans to state firms they knew would not repay them.

It was not just the central government that exerted pressure on the banks. It is also possible that many localities pressured local bank branches to loan to state enterprises rather than private enterprises because local government benefited from this "soft money." Although it would appear that local governments should have benefited from bank reform by reallocating capital from state enterprises, which characteristically lost money, and therefore did not pay much taxes, to private enterprises, which typically made money, and therefore paid more taxes, the situation was complicated by local governments' relationships with state enterprises. Local governments gained by funneling bank loans to unprofitable state enterprises because they subsequently received part of these funds from the enterprises in the form of fees and assessments which were not reported to higher levels. Though the evidence for this phenomenon is mostly circumstantial, it appears that state enterprises and local governments colluded to use unpaid bank loans to reallocate central government funds to themselves.¹⁴ Local governments with this kind of lucrative relationship with local state-owned firms would pressure banks to loan to these enterprises even if private firms were more profitable. Thus government had some incentive, both centrally and locally, to keep bad loans flowing to state enterprises.

Given the central government's half-hearted attempts to change the banking system and some local governments' resistance to reform, it is not surprising that bankers' lending behavior did not change much during the Deng era. Bankers were not rewarded for making "good" loans, and not penalized for "bad" loans. Rather, any loan made to a state enterprise was considered a legitimate loan. The official logic was that

¹⁴Huang, Yasheng. "Web of Interests in Chinese Local Economic Bureaucracies and Enterprises During Reforms." *China Quarterly* (September 1990): 431-58. pp. 446-453.

state banks were owned by the “whole people”, as were state enterprises. so moving money from “the people’s” banks to “the people’s” firms was perfectly legitimate, whether or not it was ever repaid. In contrast, giving “the people’s” money to private enterprises was a questionable proposition: if the money was not repaid, “the people” lost. Bankers were therefore hesitant to engage in this risky behavior that offered no reward.

In the rest of this section, I examine how business founders reacted to this situation: how they understood it, and how some of them were able to deal with it. In contrast to taxation, discussed below, where nearly every business owner with whom I spoke had the means to work around the policy, in dealing with the banks, a sizable percentage of business owners could do nothing; about one third of the entrepreneurs did nothing but endure the perennial shortage of capital. The remainder, though, managed to secure funds in two ways, by using their resources to get bank loans despite the nature of the banking institutions, and through the informal financial sector to which their existence gave rise.

A Biased Banking System

Entrepreneurs were not sympathetic to the multiple factors hindering bank reform. Most entrepreneurs saw their trouble in getting bank loans as just another manifestation of society’s bias against them. Business owners tended to focus on the unjustness of the way they were treated in comparison to state-owned companies. “We can’t borrow money from the bank because the government serves the money-losing state enterprises,” griped a long-time private businessman. “The reform is too slow. The government should do what it says. They say the state, collective, and private enterprises are the

same, but private enterprises can't borrow money."¹⁵ The owner of an electronics firm concurred, "even though I am profitable, I can't get a loan to expand production. This is unfair."¹⁶ A woman considering expanding her business worried about her chances of getting a loan in the future. She too emphasized the superior financial performance of private firms, "the credit of private businesses is sometimes better than state firms, because state firms don't repay their loans, so private firms should be treated the same. The fittest should survive."¹⁷ A businessman familiar with the United States knew that Chinese banks were peculiar in this respect. "Outside China, banks look at how good the company is, but in China, a state company losing money will get a loan much more easily than a private company making a lot of money. The banks here need to be commercialized."¹⁸

Many entrepreneurs had theories to explain the bankers' behavior. The failure of bankers to "change their thinking" from traditional Communist ways was a common explanation.¹⁹ One of the "old ideas" criticized by business owners was the notion that state enterprises deserved more support than private enterprises because state enterprises served the whole people, thus loaning to them was 'suitable'. A newspaper reporter found fault with this approach, "right now, financial bureaus are following the 'suitable support' reason and not giving much support to individual and private businesses. Private businesses want the same treatment as state and collective enterprises."²⁰ Because the situation seemed irrational as well as unjust, many business owners explained the glacial pace of change to inertia in people's mind sets. When I asked a wholesale trader why the banks were so slow to change, he replied, "I don't know why.

¹⁵Interview 55.

¹⁶Interview 16.

¹⁷Interview 35.

¹⁸Interview 33.

¹⁹Interview 14 and others.

²⁰*Qiyejia Tiandi*. "Geti Gongshanghu he Siying Qiyezhu de Xin Yaoqiu (The new demands of individual industrial and commercial businesspeople and private entrepreneurs)." no. 5, 1993, 41.

It's government policy, so who knows why? The ideas of forty years can't change so quickly."²¹ As another entrepreneur put it, "the biggest problem facing China is... the intransigence of institutions and people."²²

A former banker I interviewed characterized the banks as "very conservative," a trait that was often observed by frustrated businessmen.²³ "There's no way to borrow from the bank. The government policy says we can, but actually, we can't. The bank thinks it's too risky. I have a guarantee from a friend's enterprise, but I still can't get a loan," said one exasperated entrepreneur. It was clear from interviews with business owners who had tried to get loans that though official government policy called for giving loans regardless of ownership, bank policy differed. The banks did not reward bankers for good or bad loans, but instead effectively encouraged bankers to loan on the basis of ownership, as the entrepreneurs learned through experience, "if the bank loans to a state enterprise and the state enterprise doesn't repay, the bank just has to write a report. But if they loan to a private enterprise that loses the money, who is responsible for it?"²⁴ A successful woman entrepreneur in Shanghai was irked by the seeming inconsistencies in the government reform agenda: on the one hand, relying on private entrepreneurs to create jobs, on the other hand, stifling their growth.

Even though lots of state enterprises have gone bankrupt, and the workers from them who are unemployed are supposed to start their own businesses, the Shanghai banks still won't loan to private businesses.

Is this because of government policy?

No, the Shanghai government has not said the banks may not loan to private business, but the banks are not willing to, because if they loan to collective- or state-owned enterprises, these are the nation's, so they can't be criticized for loaning to them, even if they don't pay back. So the bank will loan to really badly managed collective- and state-owned enterprises but not to very successful private enterprises. Because if they loan to

²¹Interview 54.

²²Interview 14.

²³Interview number withheld.

²⁴Interview 25.

private firms, and the firms lose the money, they've lost state money, and they can be criticized.²⁵

As my conversation with her shows, she blamed bankers themselves rather than higher-level policy-makers. "This is a problem of the way the bankers think, their concepts. Deng said private business should be 60% of the Shanghai economy, but it's only 6%. The government wants to change the situation, but every aspect is difficult because there are many organizations that resist change like the banks.²⁶ Oddly, she did not reflect on who criticizes the bankers for their performance. She seemed to attribute some autonomy to high level bank officials, who in her view choose to ignore central government directives to pursue their own ideological (anti-private business) agenda.

Some would-be borrowers speculated that the bankers' behavior was driven in part by resentment. The existence of a dual economy, part planned, part market, meant that people with the wages and lifestyle of a state-run economy coexisted with those with the wages and lifestyle of an Asian "dragon" economy. Private entrepreneurs seeking loans from bankers involved a meeting across the divide. The business owners believed the difference in earnings between bankers and private business owners disgruntled the bankers, disgruntlement that was manifested in bribe-taking. A clothing wholesaler attributed bankers' stinginess toward private business to vindictiveness: "some officials are jealous that we have so much money, so they're not willing to loan us money."²⁷ Another man confirmed the hostility, "if you tell the bank you are a private company, they will demand a higher service fee."²⁸ Without a bribe, even connections were to no avail, according to an interviewee in Hangzhou, "I had a good relationship with the

²⁵Interview 14.

²⁶Interview 14.

²⁷Interview 59.

²⁸Interview 32.

bankers, but I had no desire to bribe them because I thought that wasn't the way things should work."²⁹ As a result, he was unable to get a loan.

Even business owners who were able to get loans found the situation "massively annoying" despite their success: "you have to take the bankers out to eat, and it's very time consuming. I don't give bankers a 'sales commission,' I just give them meals -- it's illegal to give them money, not food.... You have to have good credit to get a loan, but the banks are always unfair. It doesn't matter how well the company is doing. Unlike in the U.S., where if you have the collateral, they must give you a loan."³⁰ As difficult as getting a first loan was, it was only the beginning in an ongoing, time-consuming relationship with the bank; "the loan period is just three months, so you have to pay it back as soon as you borrow it."³¹ The short loan period, dictated in part by an attempt by the central government to slow inflation by curtailing credit, was also a convenient way for bankers to extract a steady supply of bribe income.³²

My interview with the former banker confirmed some of the opinions voiced by business owners. The banker was resentful of his remuneration at the bank: "I only made ten thousand yuan per year (\$1,100). We had free medical care, but, for example, they took a long time to rent a place for me to live." He and the other bankers made up for their poor benefits by accepting bribes from their customers: "People I loaned to gave me a cash 'sales commission'. Most of the workers at the bank took this 'sales commission'." He also used his position to establish better connections: "I made money and friends through the loans I made. The friends I made loaning money helped me after I left the bank."³³ Given these attitudes among bankers, it is not surprising that private entrepreneurs felt they were being exploited.

²⁹Interview 57.

³⁰Interview 51.

³¹Interview 54.

³²Interview with former banker, number withheld.

³³Interview number withheld.

Others with a more global perspective on banks' operations saw the hand of the central government in the behavior of the banks. A Japanese banker I talked to in Shanghai was aware that the banking system was still heavily influenced by the legacy of a centrally planned economy. "The planned economy is alive and well in the Construction Bank and the Bank of China. The government decides on a project and the bank must loan to that project. The Bank of China has to absorb foreign currency so it can give these loans to government projects, so it funnels in money from its branches abroad." If offered the choice between government-guaranteed loans and non-guaranteed loans, banks chose the former. "The Bank of China doesn't want to loan to Chinese enterprises because they aren't backed." Foreign banks, he said, were not jumping into the Chinese market, because until 1995 they had not been allowed to loan to non-state enterprises.³⁴ "Foreign commercial banks don't want to loan to township and village enterprises either, because they are small- or medium-scale, and are not backed by the government. Foreign commercial banks will loan only if backed by the government or the Bank of China," he said.³⁵ The core of the problem was that China lacked accounting standards for foreign banks to assess a company's creditworthiness and the legal infrastructure to protect the loan agreement.

In 1993, the Chinese government pushed reforms designed to turn most banks into independently operated commercial banks. Though massively reducing bad loans to the state-owned enterprises was a crucial part of this process, in 1994 the government was still telling banks to continue such lending. Ye Sen, a senior economist with the State Commission for Restructuring the Economic System, summarized the government's position, "we think social stability is a precondition for everything," he said. "Stability is the precondition, development is the goal and reform is the measure. If you have no

³⁴Foreign banks were still not allowed to do Chinese currency business in 1996. Kazer, William. "China Bank Sees Niche in Private Sector." *Reuters@clarinet*, October 17 1996.

³⁵Interview 10.

stability you can do nothing.” The government’s concern was for the 110 million people employed in state-owned firms.³⁶

Success in Borrowing From the Bank

Despite the troubles private businesses had in borrowing money from banks, a surprisingly high percentage of them managed to do so nonetheless. Overall, just under 45% of entrepreneurs in my sample who wanted to get a loan succeeded (Table 3.1). In almost every case, a combination of market and non-market factors enabled them to secure a loan. Market factors included size of the firm, profitability, foreign orders, and collateral. In addition, though the central government ensured that the vast majority of capital in the banks flowed to state enterprises, the government’s desire to support technological development and foreign investment meant that some private firms also benefited from preferential loan treatment.

Table 3.1: Borrowing Success by City (%)

	Beijing	Shanghai	Hangzhou
Successful	30	44	40
Unsuccessful	50	44	44
Did not want loan	20	11	16
% Succeeded who wanted loans	38	50	48
N cases	20	9	25

Business owners also used personal relationships to create a more market-oriented system: they relied on friends in state enterprises to get loans even though the banks were disinclined to loan to them. Firms frequently used state or collective

³⁶Korporaal, Glenda. “China -- From Superboom to Boom.” *Australian Financial Review*, July 26 1994.

enterprises as guarantors for their loans. Invariably, they had a personal relationship with the management at the firm giving the guarantee. Other factors also grounded in personal relationships included connections with bankers, bribes to bankers, and loans based on registration as a state-owned enterprise (Table 3.2).

Table 3.2: Reasons for Borrowing Success or Failure

<u>Did not get a loan</u> (25 people)	<u>%</u>
<u>Market Reasons</u>	
No guarantor	16
No collateral	12
<u>Non-market reasons</u>	
Banks don't loan to private firms	56
No connections	8
Not willing to bribe banker	4
<u>Got a loan</u> (20 people)	<u>%</u>
<u>Market reasons</u>	
Used collateral	35
Firm making lots of money	25
Firm well-known/respected	10
I'm trustworthy	5
<u>Policy reasons</u>	
High technology	10
Joint-venture	5
<u>Personal relationship reasons</u>	
Through connections	50
Guarantee from state ent.	25
Registered as state-owned	15

Difference in owners' backgrounds and business experience had a great impact on their attitude towards, approach to, and success in getting loans. Some owners felt it was hopeless to try to get a loan, and responded to my query with a curt "banks don't loan to private businesses."³⁷ A woman who ran a manufacturing business felt she was "forced"

³⁷Interviews 59, 2.

to cooperate with a state-owned business to get the capital she needed. Though for her this meant a loss of managerial control, and putting up with the “wastefulness and irresponsibility” of the workers in the state enterprise, she saw it as her only choice.³⁸ A man in Beijing similarly felt he had “no way to raise capital.” He was envious of peasant businessmen, who “can raise animals to get money.”³⁹ Another man, who owned a house he had inherited from his father, could not get a loan despite this collateral. “Even though the house is worth 300,000 yuan, it’s assessed at only 150,000 for loan purposes. But that doesn’t matter, because we don’t have connections at the bank, so there’s no way we could get a loan.”⁴⁰ The owner of a trading company, who had no trouble getting loans, reflected on the contrasts, “for some people, it’s easy to borrow from the bank, if you have the right connections. If you don’t it’s very hard.”⁴¹

A few people interviewed had gotten loans exclusively for market-related reasons. A man in Beijing had borrowed from the bank once, using foreign orders as assurance of repayment. Atypically, he felt that connections would not have helped him. “If I had had friends at the bank, it would have been dangerous for them,” he said.⁴² Though a few business owners felt they could have gotten loans using collateral, they were afraid to default and lose their property. Only the confident put up their belongings against their loans. A man in the construction business had used his home to secure the loan. I asked him if this had worried him. He replied, “Not at all. My company has a lot of different products, and thus stable successful base. Some private businesses are poorly managed and they go bankrupt and lose their collateral.”⁴³

³⁸Interview number withheld.

³⁹Interview 14.

⁴⁰Interview 59.

⁴¹Interview 45.

⁴²Interview 70.

⁴³Interview 28.

Since the government sought to encourage foreign investment and development of high technology, a few private firms benefited from these policies. A manager of a mainland-Hong Kong clothing joint-venture was one of the few interviewees to characterize getting a loan as “easy,” despite having no friends or connections at the bank.⁴⁴ In contrast, a combination of policy, connections, and economic success led a high technology joint-venture to secure a four million yuan loan. The owners’ friends in the Science and Technology Commission got the support of the Commission behind them, which, coupled with the firm’s high profit rate, led to the sizable loan.⁴⁵ One young high-tech entrepreneur credited his success in getting a loan in part to his inexperience, “at the time, I was brave because I was young; if I had been old, I never would have dared to approach the bank.”⁴⁶

One of the most common ways business owners used their personal networks to help them get loans was by convincing friends at state-owned companies to guarantee their loans. Since the guarantor often had nothing immediate to gain, the difficulty in doing this varied with the strength of the friendship, the friend’s influence in the state-owned company, and the perceived risk. For one entrepreneur, a friend who managed a township enterprise and also served as the township leader was an easy source of a 3.5 million yuan guarantee. In contrast to state-owned enterprises, where collective decision-making slowed the guarantee process, the township enterprise manager decided the matter by himself.⁴⁷ Even with a guarantee, getting a loan was often an arduous process. An entrepreneur who had received three loans said the loans were not easy to get, “because the bank doesn’t have a lot of money, and because we are a private company, the bank doesn’t trust us.”⁴⁸

⁴⁴Interview 50.

⁴⁵Interview 40.

⁴⁶Interview 22.

⁴⁷Interview 39.

⁴⁸Interview 30.

Those who had good enough connections to set themselves up as registered state-owned companies nevertheless had to bribe the bankers, with “lunch, ... cigarettes and liquor, ... and parties.” An entrepreneur in Hangzhou accepted this situation, reasoning that “it’s a seller’s market. I think it’s OK to give gifts, because the bankers don’t earn much money, and my purpose in borrowing the money is to earn money, so our goals are the same. It’s fair.”⁴⁹ But another found it extremely annoying, describing borrowing from the bank as “a constant job... part of my day is doing business, part of my day is dealing with the bank.” Because bank capital was under priced, demand for it far outstripped supply. As he put it, “money from the bank is like cake. Everyone wants it. So I have to spend a lot of time with the bankers making sure I get it.”⁵⁰ Despite the annoyances, the reward for registering as a state enterprise was sizable. A young, well-connected businessman in Shanghai, whose first company had been registered as private, but whose second was “state-owned,” vowed never to register another firm as private, because of the difficulties getting financing.⁵¹

The Creation of an Unofficial Financial Market

Private business owners overcame bias in the banks in part by registering falsely and by getting friends at state enterprises to guarantee their loans. They also used connections with people in state enterprises to create an unofficial market-oriented financial system that co-existed with the official one. Personal networks that bridged private and state firms thus played a crucial role in facilitating the development of private businesses. Market forces were the second key ingredient, both in getting loans from banks and in the creation of an unofficial financial market. As described above, most business owners, in addition to relying on their connections, also relied on the

⁴⁹Interview 62.

⁵⁰Interview 47.

⁵¹Interview 16.

profitability of their business or on collateral to secure loans or loan guarantees. In the creation of an unofficial financial market, the profitability of private firms was also crucial.

The low rate of return derived from banks' investments in state enterprises, coupled with government policy, made interest payments to depositors very low, typically below the rate of inflation. In contrast, private enterprises were capable of paying much higher returns on capital. This difference in return to capital between state enterprises and private enterprises created incentives for people to find ways around the official banking system. Individual and corporate investors sought avenues to invest in private firms rather than hand their money over to the bank. As one man summarized succinctly, "people don't like to put their money in the bank because the interest is too low. People like to invest. So there's not enough money in the banks, and everyone wants to borrow it."⁵² As a result, for private businesses, investment from friends was the most commonly used source of capital outside the entrepreneurs' families. "When my business started doing well, my friends were willing to invest their savings because I paid them interest of 25% per year. much better than they got in the bank," commented a Shanghai businessman, with some satisfaction.⁵³ Another entrepreneur concurred, explaining that "people don't want to put money in the bank, but would rather put it in our hands because they can earn more interest. I give them 20% interest, which is double what the bank gives them."⁵⁴ In some cases friends provided loans for a fixed rate of return, in other cases they invested in the firm and became co-owners.⁵⁵

Work units also invested with private businesses, because, as one entrepreneur explained, "I give better interest than depositing the money in the bank."⁵⁶ The amount

⁵²Interview 49.

⁵³Interview 16.

⁵⁴Interview 69.

⁵⁵Interview 11.

⁵⁶Interview 51.

of money invested varied, as did the rate of return. Initial investments tended to be of several tens of thousands of yuan (\$2,000 to \$10,000 U.S.), with later investments larger. If companies were repaid promptly, they were willing to risk larger amounts.⁵⁷ As enterprise managers became aware of the profits to be had from loaning money to private firms, some began to borrow from the bank expressly for the purpose of re-loaning the money. A private firm in Beijing had borrowed money from two enterprises using this method. The state-owned companies borrowed money at the official lending rate of 7% to 10%, re-loaning it to the private company at 15%, and pocketing the difference. In fact, the state enterprise had approached the private company because “they were looking for someone relatively safe to whom to loan their excess money.”⁵⁸ Even branch offices of the government bureaucracy got into the act; a private restaurant in Hangzhou had gotten part of its funding in a loan from the Traffic Bureau.⁵⁹

Interviews with some private business founders indicated demand for further development of market-oriented financial institutions. Ambitious entrepreneurs looked to new financial practices and institutions to solve the capital problem in the future. One solution offered by several people I interviewed was the joint-stock company, a simple corporate structure with many share-holding investors. By selling shares, private businesses would dilute their ownership but raise crucial capital. Business owners inclined to expand swiftly saw this as an even better solution than bank loans. As one man reasoned, “I can get bank loans using my buildings as collateral, but the loans are limited to value of buildings, which isn’t enough. For this reason, I want to become a

⁵⁷Interview 65.

⁵⁸Interview number withheld.

⁵⁹Interview number withheld.

stock company, but right now people aren't familiar with the concept of a stock company, especially for private business, so it's too early."⁶⁰

Local financial institutions were also springing up to fill the gaps in the central-run system. Neighborhood credit societies emerged, staffed by retired people who raised revenue by collecting water and electric fees for government bureaus.⁶¹ The societies attracted individual depositors because the service at the Bank of China was poor, with long waiting lines. These credit societies invested their deposits primarily in private and collective enterprises.⁶²

As the number of private firms grew and their scale expanded, they themselves became sources of capital. A retailer from Zhejiang Province with whom I spoke had established a loan network among his fellow business owners. "Many of my best friends have opened their own businesses. Officially they are collective, actually they are private. When we are short of capital, we loan to each other, 10,000 or 100,000 yuan," he said.⁶³

A few people interviewed mentioned that they would like to open a private bank. The non-profit-oriented lending practices by state banks provided a compelling opportunity for profit-seeking banks. One man noted that "[while] private companies can earn money the best, the interest rates for them are higher." Because of this market distortion, a bank that loaned only to profitable companies would do well. "Private banks will definitely develop. If I can, I will open a bank. This will be legal in three years, I believe. Now there are joint venture banks starting. If my partners and I had 40 million yuan (\$5 million U.S.), we would start a bank," he affirmed.⁶⁴

⁶⁰Interview 20.

⁶¹People in China do not generally have checkbooks, so payment for water and electric bills is collected in person. Since it is not cost effective for the Bureaus to do this themselves, they contract the credit associations to do it for them.

⁶²Interview 10, a Japanese banker in Shanghai.

⁶³Interview 39.

⁶⁴Interview 39.

Though no one I interviewed had actually started a bank, one man had loaned a substantial sum, roughly \$1.5 million U.S., to a state-owned enterprise the previous year. He explained that the central government's attempts to reign in credit to curb inflation meant that some state enterprises looked for money from other sources. "They can only borrow money from one bank, the amount is limited because the banks want to reduce risk, and the government... has put limits on the size of loans," he explained.⁶⁵ In this reversal of the norm, it was a private business that supplied capital at market rates to a state firm.

Restrictions on the nascent unofficial capital market were far stronger in Beijing than in free-wheeling Hangzhou. Though many entrepreneurs I interviewed in Zhejiang Province had borrowed money from state-owned enterprises, such loans were prohibited in Beijing. An entrepreneur who manufactured beverages lamented the seeming irrationality of the constraints: "though I have a lot of friends at state enterprises who have extra cash lying around, they can't loan me the money because it's illegal, and if they did, they'd be arrested."⁶⁶ When I mentioned to him that state enterprises in the south often loaned money, he agreed, commenting that "the south is much more relaxed and open. But in Beijing, the central government controls things very tightly, so we have to go according to the letter of the law."

The local government was particularly permissive in Wenzhou city in Zhejiang province, which by the late 1980s had become famous for its large private sector. The development of market-supportive institutions in the Wenzhou area was both driven by the growth of private businesses and in turn fed the growth of private businesses. The role of private entrepreneurs in motivating institutional change and local governments in

⁶⁵Interview 49.

⁶⁶Interview 67.

permitting it can be clearly seen in the re-emergence of floating rate loans, which occurred in a county under the jurisdiction of the Wenzhou city government.

The surge in agricultural output following the return to family farming in 1978 triggered the growth of an agricultural products industry in the area. These private family-run businesses quickly developed shortages of liquid capital, however. Several rural “credit societies” took advantage of this capital shortage by charging high interest rates for loans.⁶⁷ As a result, private enterprises and “money clubs” began offering much cheaper loans at floating rates.⁶⁸

Pushed by this private, illegal competition, in 1980 the Jin Village Credit Society in Cangnan county saw an opportunity to attract larger numbers of depositors by offering higher interest rates on deposits. It offered floating rates on both deposits and loans to stir up business. Within a year, it had attracted 1.4 million yuan in deposits and loaned out 1.3 million yuan.⁶⁹

Floating rate loans had always been forbidden in Communist China’s financial system, however. There was no precedent for the credit society’s action. According to the local newspaper, some county Party leaders “knit their brows” at this action, and thought the Society was “causing mischief and running wild.”⁷⁰ A report was sent to Wenzhou city, and the head of Wenzhou city decided that since the floating rates were “good for the development of the socialist commodity economy,” then this “restricted area” could be broken into. With the support of the Wenzhou city government, the Wenzhou Agricultural Bank extended the floating rates first through the rest of Cangnan

⁶⁷Ye Shaomin. “Zhengfude Wenzhi (The government’s place).” *Wenzhou Ribao*, October 11 1992, 1.

⁶⁸Liu, Yia-Ling. “Reform From Below: The Private Economy and Local Politics in the Rural Industrialization of Wenzhou.” *China Quarterly* (1992): 293-316, p. 298.

⁶⁹Ye.

⁷⁰hu2nao4.

county and then throughout the Wenzhou city jurisdiction.⁷¹ In 1984, floating rates were legalized by the central government.⁷²

Though it is unclear from newspaper accounts the exact calculus of Chen Wenxian, the mayor of the Wenzhou, in approving this bank reform, his words show a concern with the relative status of his city compared with other Chinese cities. Mayor Chen noted that “while the national market economy is not yet mature, whichever region’s market is relatively developed will gain superiority. When a region’s market becomes mature, great changes will occur. That region’s government’s means of regulation and control will be considered wise, and that region will achieve competitive dominance.”⁷³ In this comment, he situates his behavior in a framework of economic competition with other localities. He also recognizes that swift adoption of institutional innovation could make a significant difference to the local economy at this early stage of China’s reforms.

For their part, private business owners contributed to the change in three ways. First, business owners created a substantial demand for lower-interest loans. Second, private businesses formed to meet this demand by offering market-rate loans, which forced the existing credit societies and banks to compete with them by offering such loans as well. Third, the anticipated growth of the private sector motivated the head of the city government to take the political risk of approving the credit society’s actions, whether because of anticipated increased local production, tax revenues, or employment.

These difference in the willingness of local governments to permit the evolution of market-conforming practices and institutions could be observed in the aggregate experiences of entrepreneurs. In each of the cities in my survey, the same percentage of

⁷¹Ye.

⁷²Wenxian Yanjiushi, “Zhongguo zhongyang guanyu yijiubasinian nongcun gongzuo de tongzhi” in Wenxian Yanjiushi, ed. *Shierda yilai zhongguo wenxian xuanbian*. (Beijing: Renmin Chubanshe, 1986), cited in Liu, 298.

⁷³Ye.

the entrepreneurs I interviewed who wanted a bank loan had gotten one. But because of the differences in the development of the informal loan market, a higher percentage of business owners in Beijing and Shanghai considered the dearth of capital to be a major problem for their business. In comparison, relatively few business owners in Hangzhou cited capital as a major problem: while nearly half the Shanghai business founders and one in three in Beijing mentioned capital as a major problem, only one in five Hangzhou business owners did so (Table 3.3).

Table 3.3: Capital as a Major Problem in the Business by City

	Is capital a major problem? (%)		
	Beijing	Shanghai	Hangzhou
yes	35	46	20
no	65	54	80
N cases	20	13	24

Two factors contributed to regional differences in the development of market-oriented institutions. First, since local institutions often adopted market-oriented behavior in defiance of official central government policy, closeness to the capital, Beijing, tended to mean adherence to the letter of central pronouncements. Second, since the adoption of market-oriented behavior favored private business, such behavior was more prevalent in areas where the private sector was more developed. In other areas, where the local economy was dominated by state-owned enterprises, there was less incentive for local government to accommodate private businesses. In Shanghai, for example, local officials tended to view the private sector as a threat to the state-owned companies on which the city depended.⁷⁴ The existence of private businesses thus

⁷⁴Whiting, Susan H. "Stasis and Change: Evolving Institutions for Revenue Extraction in Rural China." In *Annual Meeting of the American Political Science Association in Chicago*, no. 53. 12-13.

created positive feedback in local policy which furthered its growth. In China, this has meant that certain areas have become centers of private sector development, specifically, the southeastern provinces of Zhejiang (where Hangzhou is located), Guangdong, Fujian, and Jiangsu.

Ultimately, private businesses were involved in the formation of a national market-oriented bank. In 1996, the China Minsheng Banking Corporation was founded as the reform era's first non-state-owned bank -- 80% of its capital was put up by private or collective firms. Its intent was to focus on loaning to private and collective firms, and in its first year more than 70% of its loans went to non-state-owned companies. Here again, the economic success of the private sector was an underlying force in motivating market-oriented institutional change. In the first five months of 1996, the year-on-year industrial output of the non-state sector grew by 23.8%, while that of the state sector grew by only 6.5%.⁷⁵ The unmet demand for capital in the non-state sector promised rich rewards. The Minsheng Bank's chairman, Jing Shuping, estimated that the market for loans to private and collective firms, though largely ignored by the state-controlled banks, was lucrative enough to bring a 50% return on the shareholders' investment by the bank's third year in business.⁷⁶

Official Reforms in Banking Institutes

Despite the tremendous political pressure against banking reform created by the need to sustain state enterprises, small changes in the existing banking system nonetheless occurred during the 1980s and 1990s. The government did recognize that the banking system had to change. Though many forces acted to prevent reform, others encouraged it.

⁷⁵O'Neill, Mark. "Newest Chinese bank plugs hole in lending." *Reuters@clarinet*, July 5 1996.

⁷⁶Kazer.

For example, the high number of outstanding bad loans to state enterprises threatened the stability of the banks. The Chinese government announced in 1994 that it estimated one third of the banks' outstanding loans were not going to be repaid. In a front-page article, the *Economic Daily* confirmed that "old ideas" were part of the problem, but this time pointed to state enterprise managers, reporting that they felt no need to repay the loans, since "their firm and the bank are both state-owned, so that ownership of the money is the same."⁷⁷

It also became increasingly clear that loans to state enterprises not only were not economically efficient, but might not be socially redeeming either. The *Economic Daily* reported that while their firms were heavily in debt, factory bosses squandered company money on mobile phones, expensive cars and other luxuries. Contributing to their sleazy image, enterprise managers used unsavory tactics to avoid repaying loans, such as moving their residences, opening new accounts under aliases, and setting up subsidiary corporations to hide assets. Bank loans to local governments were also misallocated for unlawful purposes. A county in the southern province of Hunan diverted 11 million yuan in agricultural loans to increase welfare payments and buy automobiles. The city government of Yinchuan, capital of impoverished Ningxia province, spent 15 million yuan constructing an upscale market area which attracted no customers.⁷⁸

Yet another article in the *Economic Daily* used harsh words to emphasize the problems with the banks. "Credit should be used to help the enterprises with better returns to develop faster, and should not be used to constantly perform blood transfusions for enterprises with poor returns," it warned. The article urged the development of a

⁷⁷O'Neill.

⁷⁸O'Neill.

financial system just for non-state companies, and recommended allowing non-state firms to issue shares and bonds to raise capital.⁷⁹

By the mid 1990s, the desirability of establishing separate central and commercial banking systems was widely acknowledged by the government, and reforms had begun. The overhang of bad debt, which the reforms intended to solve, was at the same time an acute impediment in China's attempts to set up a modern banking system where loans are awarded based on creditworthiness and not by government decree. Wu Jinglian, a leading economist, attributed the relative slowness of reform in the banking system to the government's heavy involvement in running companies, which he compared to a "father and son" relationship. Nevertheless he reiterated the government's commitment to change in the long run.⁸⁰

In 1994, the People's Bank was declared a central bank, called in all its commercial loans, and withdrew from all commercial functions. One factor motivating the government to establish a commercial banking network was the vast untapped domestic savings. Without viable commercial banks, individuals kept their money invested through unofficial channels (described in part above), out of reach of the state and its investment agenda.⁸¹ At the same time, three new policy banks were established to take over the government-mandated loans of the four large nationwide banks, allowing them to become commercial banks. Again the high percentage of outstanding bad loans slowed this process. Ironically, private entrepreneurs were one cause of the slow-down in the bank reform that they themselves clamored for. The four nationwide banks' biggest debtors were state firms in commerce, marketing and the supply of raw materials, who were unable to compete with the new private companies flooding into these sectors.⁸²

⁷⁹Zhong Pengrong. "Five Problems on Expediting the Development of the nonstate-run economy." *Jingji Ribao*, 19 August 1993, 5.

⁸⁰O'Neill.

⁸¹Interview with the director of a prominent Hong Kong business conglomerate.

⁸²O'Neill.

Small changes in the banks made it much easier for private enterprises to do business. For example, in the early 1980s, private businesses were not allowed to open bank accounts, write cheques, hold foreign currency, or use collateral to get loans. By 1994, all of these were legal.⁸³ These improvements prompted several business owners to remark that the situation was looking up, with progress in peoples' attitudes evident each year. It is also possible that rather than being reformed, the state-owned banks will slowly be eclipsed by the new financial entities described above, many of which have private-sector investment or primarily serve the private sector.

Overall, official reforms in the banking sector were still modest in the mid-1990s. Bank reform progressed slowly because it threatened the survival of the well-organized, entrenched state enterprises. It further jeopardized local governments that profited from the inflow of soft loans to their regions. Reforming the banks also involved a political risk for the government, since bank reform meant closing state enterprises, leaving millions jobless. In contrast, reform of the tax system, which I discuss next, was not a direct threat to any entrenched group, nor did it necessarily involve political risks for the government. Instead, other factors influenced the pace of its reform.

TAXES

Background

In this section I argue that private business owners were pivotal in shaping the development of China's tax system in the 1980s and 1990s. The system as it existed in the early 1980s was uninstitutionalized, and based on the Marxist notion that private businesses were inherently exploitative of workers; tax rates were set punitively high, designed to ensure that these pernicious businesses did not prosper. By the middle of the 1990s, the tax system was increasingly codified in rules that were publicly available, did

⁸³Interviews 66. 16.

not discriminate on the basis of ownership, with rates that were designed to encourage growth of the private sector.

This transformation happened in three ways. First, entrepreneurs used personal connections to “work around” the tax system, de facto creating one that did not discriminate against them, that was more predictable, and that had lower rates. With the help of former co-workers, classmates, and relatives in state and collective enterprises, they registered falsely as state- or collectively-owned businesses.

Second, in many cases, local governments turned a blind eye to this illegal behavior. The emergence of China’s tax system for private enterprises seems to have been in part the result of a struggle between different levels of the government. Because this study focuses on private business owners, I cannot make conclusive statements about the motives of local and national leaders. However, I will comment on their actual behavior and its effects. The different levels of government in China did not work together to maximize revenue from the private sector; rather, the private sector was treated as a contested commons. Each level acted in ways that minimized the exactions of the other levels while increasing its own exactions. At the same time, documentary sources indicate that many local governments and the central government recognized that their own excessive predation would hurt their long-term revenues by damaging the private sector.⁸⁴

Lower-level governments and higher-level governments adopted oppositional strategies to harvest from the private sector.⁸⁵ After ensuring the payment of their tax quotas, lower-level governments seemed to direct any additional private sector payments out of official tax channels, which would either be passed on to higher levels, or would be

⁸⁴They were faced with the predicament described by North: a state can maximize revenue from its constituents, but doing so creates inefficient property rights, which hurts economic growth and in turn diminish future revenue (North, 24).

⁸⁵By “lower-level and higher-level governments” I mean county, district, and city versus province, and province versus central.

counted in their official budget, possibly reducing their subsidies. They instead funneled private sector payments into hidden, extra-budgetary fees and assessments they could keep.⁸⁶ In contrast, higher-level governments reduced the exactions by these lower-level governments by establishing clear public laws protecting private businesses' property rights (discussed at greater length in the section on legal reform, below).

So while lower-level governments (whether intentionally or not) assisted private businesses in "working around" harsh tax laws by ignoring their various quasi-legal or illegal techniques, at the same time these governments burdened private firms with multitudinous fees, assessments, and fines.⁸⁷ Higher-level governments, in turn, portrayed themselves as protectors of private businesses against the predations of out-of-control local officials. These higher-level governments, however, sought to enforce steep official taxes to obtain revenues for themselves.

Not all regions had the fiscal ability to reduce short-term expropriations from the private sector in order to increase long-term expropriations, however. For example, Shanghai, based on its history of industrial might, was required to turn over a very large sum to the central government in taxes in the early 1990s. Unfortunately, the profitability of its industrial base of state-owned enterprises had declined sharply during the reform period. Faced with this short-term revenue crisis, the Shanghai government enforced to the letter the harsh official tax policies for private businesses.⁸⁸

Finally, the success of the private sector and the behavior of entrepreneurs and their firms changed people's attitudes toward private business. Over the course of the

⁸⁶A World Bank study of China's 1994 tax reforms confirmed that these kinds of extrabudgetary funds were on the rise, to the extent that they formed a "quasi-tax system" outside of central government control. Wong, Christine P.W., ed. *Financing local government in the People's Republic of China*. New York: Oxford University Press for Asian Development Bank, 1997, 4, 13.

⁸⁷Huang has hypothesized that local economic bureaus supervising state-owned enterprises exhibit the same behavior. They help local state-owned enterprises evade taxes (destined for higher levels) while exacting extrabudgetary fees (destined locally), 447-453.

⁸⁸Whiting, 29. Whiting discusses in detail how local officials implemented private sector tax laws differently, depending on the size of their tax responsibility to the central government and the ownership composition of the local economy.

1980s and 1990s, the intense hostility with which most Chinese viewed the private sector faded into acceptance. This in turn made the punitive tax policies toward the private sector seem unfair.

As private enterprises reemerged in the early 1980s, the government envisioned them as limited in scope to street-side snack stands and bicycle repair stalls. The businesses would therefore be “private” but not exploitative, because they would have few, if any, hired workers. Revenues would be low, providing only a modest living for the proprietors. Should the stall-keepers happen to earn large sums of money, this would be rectified through steeply graduated income taxes. Moreover, because profits from private firms, unlike those from collective- or state-owned firms, did not accrue to society, they would be taxed at a much higher rate. In addition to the high tax on profits, private enterprises were also subject to limitations on expenses they could deduct from their pre-tax profits. Finally, the tax system emerged in a political system characterized by Communist Party policy drives, rather than a legalistic rule-based orientation. Therefore much discretion on policy implementation in general was given to Communist Party cadres at local levels, and policy fluctuated based on the political climate. Initially, the tax system reflected this genesis: it differed from province to province and county to county; it was not extensively codified; and the details of the tax rules were not available to the public, resulting in a system that was unpredictable and open to abuse.

Tax rates for private entrepreneurs in the 1980s and early '90s were substantially higher than for collective, state-owned, or foreign enterprises. For example, a 1988 tax policy with the stated aim of benefiting private business owners nonetheless included a high corporate income tax of 35 percent of fixed income, as well as a personal income tax of 40 percent for owners of private companies, almost double the 22 percent income tax

paid by ordinary citizens.⁸⁹ Private enterprises were also subject to tax policies they saw as irrational and unfair. For example, private firms were strictly limited in the size of the employee salary they were allowed to deduct as an expense. In 1994, this pre-tax salary cap was 240 yuan (\$28) per month. But, as one private owner pointed out to me, "people can't live on 240 yuan per month,"⁹⁰ so the owners were forced to pay their employees more, out of after-tax profits. Other costs were limited for private companies as well. Entrepreneurs had to get special permission from the Tax Bureau to include airplane tickets as costs, and expenses such as dinners and taxis were limited to 0.3% of income.⁹¹

A plethora of rules made entrepreneurs unsure of the legality of tax collection. A study of private enterprises in three cities in Anhui Province found that, depending on the locale, firms were variously subject to income tax, product tax, city-building tax, education tax, and administrative management tax.⁹² In my conversations with private entrepreneurs, they often criticized the haphazardness of China's tax system. "The law is not very developed," said one manufacturer, "unlike in US, which has a very mature tax system. Each place in China can set its own tax system... the central government makes the policy, but it has allowed the provinces to develop their own."⁹³

In addition, tax laws were enforced sporadically, with some localities collecting taxes in addition to those permitted by law. An individual business owner in the Guangdong Provincial delegation to the People's Congress spoke to the press about the need to establish clearer laws regarding taxation.

This type of taxation system makes it so much harder for private businesses to grow. Without an integrated, complete law, the private

⁸⁹"People's Republic of China Private Enterprise Provisional Income Tax Regulations" State Council 6/25/88 #5. Hu Honggao and Zhang Yongbin, ed. *Jingjifa anjian yibaili fenxi*. Shanghai: Fudan Daxue Chubanshe, 1992; Boatman, John and D. W. Ma. "A Private Business Law For China." *East Asian Executive Reports*, July 15 1988, 5.

⁹⁰Interview 3.

⁹¹Interviews 16, 3.

⁹²Xiao Fangyang and Yu Yongdong. "Guanyu Siying Qiye de Diaocha Yanjiu Baogao (Research Report Regarding an Investigation of Private Enterprises)." *Jianghuai Luntan* (6 1988): 7-12.

⁹³Interview 4.

businesses can't safeguard their rights and benefits: the fees of tax collectors are often like wanton and indiscriminate bombing.⁹⁴ There's no way we can go to court to appeal the taxes, because there aren't laws. The industrial and commercial bureau is supposed to manage private businesses, but actually they are more of a roadblock.⁹⁵

The problem businesses had with taxation was thus more than a matter of the amount; it was also an issue of predictability and fairness. An entrepreneur in Shanghai considered himself better off than others in this regard, "At least the government here follows the law. In other places, private businesses just have to accept that, with regard to taxes, there is no recourse to government actions." He went on to say that although in the southern provinces of Guangdong and Zhejiang the government seeks to nurture the private sector for long-term tax revenues, in other provinces the local government uses taxation to milk private firms for as much short-term revenue as possible, often driving them out of business.⁹⁶

Working Around the System

Business owners strove to make the best of these unfavorable circumstances. While maintaining a steady stream of protest to local government officials and to the press, like people everywhere, they sought to evade taxes when they could. Because collective and state-owned enterprises were subject to less taxation, many private enterprises registered falsely if possible. To register as a state-owned company, entrepreneurs with friends in a state enterprise paid a yearly fee to the company and registered as a subsidiary organization. Other private business people paid similar fees through contacts in local government bureaus; their companies were then registered as corporate subsidiaries of the government bureau. Many would-be entrepreneurs who

⁹⁴kuang2hong1 lan4zha4.

⁹⁵Siying Qiyejia Xiaosa Dengchang: shichang jingji wu "zhengshi." "pianfang" zhifen. (Private entrepreneurs come on stage naturally and unrestrainedly: the market economy doesn't distinguish between "first wife" and "concubine")." *Qiyejia Cankaobao*, March 30 1993, 1.

⁹⁶Interview 3.

lacked the contacts to register as a state-owned company found it easier to register as collective enterprises. Firms registered as collective either by paying fees to collective enterprises or local government, or simply by lying on registration forms. District-level Industrial and Commercial Bureaus often lacked the resources to monitor registration.

The benefits to false registration were considerable. In a 1990 court case involving a private rubber products factory that was registered as a village collective, the court noted that the owner paid only 10% to 20% taxes as a collective, instead of the 35% corporate taxes and 40% personal income taxes on distributed profits he would have paid as the owner of a private firm.⁹⁷ As a result of these advantages, false registration was so commonplace that it was termed “wearing the red hat,” red being the communist color: entrepreneurs that registered falsely were accused, in another popular expression, of “hanging a sheep to sell dogmeat.”⁹⁸ An owner of a private architectural firm I interviewed sympathized with private owners who registered their firms falsely. “Many enterprises are state-owned in name, but private in fact, because taxes and management fees are lower. If you earn a lot of money, people will try to take it from you if you are private. Later, if people see that it’s better to be private, they will take off the red hat.” he said.⁹⁹ Because private firms with foreign investment were considered “joint-ventures” and allowed to deduct an additional 20% in salary costs, firms also sought to register improperly as joint-ventures.¹⁰⁰

Estimates of the number of private firms falsely registered vary widely. A study of ten counties in Sichuan Province counted about 600 firms that were in fact private, but only 288 of them were officially registered as such.¹⁰¹ An entrepreneur I spoke with in

⁹⁷Hu, 78.

⁹⁸For example, in Hu, 78.

⁹⁹Interview 56. Also interviews 62, 73.

¹⁰⁰Interview 57.

¹⁰¹Cai Wenhua, Wang Huaiqing, Chen Hua, and Tang Shiguo. “Siying Qiye Fazhanzhong de Wenti yu Duice: Chuanxi Pingyuan Diqu Siying Qiye Diaocha Baogao (The development of private industry:

Hangzhou asserted that two-thirds of the private firms registered as foreign joint-ventures had no foreign partner.¹⁰² In a study of urban employment in China, a U.S. scholar estimated that by 1992, because of false registration, 1-3% of employees in state-owned enterprises really worked for private firms, as did 30-50% of employees in urban collectives, 20-30% of state-collective joint-venture employees, 40-60% of state-private joint-venture employees, 70-90% of collective-private joint-venture employees, and an astonishing 50-70% of Sino-foreign joint-venture employees. In total, the author estimated that the private work force in 1992 was four to seven times larger than official statistics indicated due to false registration -- and this estimate excluded firms contracted or leased to individuals.¹⁰³

Some very small-scale private businesses ("individual businesses" or *getihu*) resolved their tax difficulties by not registering at all. A magazine published by the two Shanghai bureaus in charge of regulating private businesses acknowledged that in 1993 there were more unregistered individual businesses in Shanghai than registered businesses because of harsh tax enforcement. Much like unlicensed street vendors in American cities, these men and women hawked their wares in busy areas where they could escape into the crowd if a police officer was spotted.¹⁰⁴ It was likewise estimated that up to half the mobile street vendors in Tianjin in 1993 were not registered, with the percentage on the rise.¹⁰⁵

problems and solutions -- a findings report of the west Sichuan plain private enterprises)." *Sichuan Daxue Xuebao Congkan* (40 1988): 73-84.

¹⁰²Interview 57.

¹⁰³Sabin, Lora. "New Bosses in the Workers' State: The Growth of Non-State Sector Employment in China." *China Quarterly* 140 (December 1994): 944-970, pp. 966, 970.

¹⁰⁴The magazine is jointly published by the Shanghai City Individual Laborers' Association and the Shanghai City Private Enterprise Association. She Tiao. "Shanghai Geti Siying Jingji Fazhan Huanman de Yuanyin Fenxi (Analysis of the reasons for the slow development of Shanghai's individual and private economy)." *Shanghai Geti Siying Jingji* 1 (1 1993): 8-12, p. 9.

¹⁰⁵Nevitt, Christopher Earle. "Private Business Associations in China: Evidence of Civil Society or Local State Power?" *The China Journal* 36 (July 1996): 25-43, p. 30.

Private firms that could not or chose not to register falsely used other methods to evade taxes. Though business owners in general were not eager to discuss whether they evaded taxes, one entrepreneur I spoke to was particularly candid. He described several tax evasion techniques that he claimed all enterprises used. To get around legal limits on employees' salaries, companies issued salaries to bogus employees, claiming, for example, 100 workers on their books, while actually employing only 50. This enabled them to deduct fully salaries of twice the size the state permitted. Other techniques took advantage of the poor training of Tax Bureau officials. For instance, companies subtracted future costs from current income, in the following way: "you add the following two months' costs in your profit calculation for this month, then months four and five for month two's costs, and so on forever. The Tax Bureau doesn't understand accounting, so you can get away with this." Accelerating depreciation for equipment also worked, he explained, because "although there are schedules for depreciation rates, the Tax Bureau people can't look them up, because they are not familiar with them."

Additional tax evasion schemes were more complex, involving collusion among companies. If an enterprise was losing money, as were 70% of state-owned enterprises in the early 1990s, profitable companies could transfer earnings to them by paying for nonexistent services or products. It worked as follows: if Company A had losses of ten thousand yuan, it received ten thousand yuan in fake income from profitable Company B. Since Company A now has no losses or profits, it paid no taxes, while Company B reduced its taxable earnings by ten thousand yuan. Company A then returned nine thousand yuan to Company B off the books, and both companies gained. Not all companies bothered with such elaborate schemes. The simplest approach was to bribe tax officials, because, like many government employees, they were poorly paid, earning less than thirty dollars per month. The mechanics of the bribery were straightforward, "at

the end of the year, we take the Tax Bureau people out to dinner at a hotel, give them money, then they ignore my tax 'creativity.'"

The entrepreneur rationalized his behavior by explaining that the taxes were set impossibly high.

The taxes can't be too low because the government will not earn any money. But now if I earn ten yuan I am supposed to pay nine yuan in taxes. In comparison, the Hong Kong tax rate is 15%, for personal and corporate taxes.... The tax on imports is too high too. If I import something that costs 100 yuan, 60 yuan of that will be taxes.

For him, obeying the letter of the law would have made it likely that his company would not be financially viable. Though breaking the law benefited his personal lifestyle, it also enabled his company's continued existence and growth.¹⁰⁶

A government administrative report confirmed that these techniques were in common usage and mentioned more. For example, it said laws designed to give tax breaks to new enterprises were exploited by some enterprises: when their tax break period ran out, the enterprises closed and re-registered as a new enterprise under a different name. Other enterprises took advantage of opaque bookkeeping -- because most firms did not get loans through state banks, it was difficult for understaffed Tax Bureaus to assess their tax bill, according to the report. Finally, owners bribed tax cadres to get discounts or to pay no taxes.¹⁰⁷

Though tax evasion can be quite damaging to a government, when evaluating its impact in China, one must consider that tax evasion engaged in by private business to some degree replaced an anti-market policy with an actual policy much more conducive to a market economy. Similarly, tax evasion by state-owned and collective firms, also widespread, *in part* replaced a national economic policy based on government investment and planning with one based on investment choices by individual firms. This is not to

¹⁰⁶Interview number withheld.

¹⁰⁷Xiao.

deny that much of the profit retained through tax evasion was used in the consumption of luxury goods or in improving the lifestyle of workers rather than in investment.

Using personal contacts to register falsely, exploiting ignorance and understaffing in the Tax Bureau, and through bribery, private entrepreneurs effected de facto changes in the tax system, shifting it from one designed on Marxist grounds to punish them for exploiting their workers towards one that did not discriminate on the basis of ownership, one more suited to a capitalist economy.

The State's Response

Though the Chinese private business owners had essentially no formal voice in the political process, whether through representation or through organized lobbying groups, they nevertheless indirectly influenced policy change. This section describes the mechanism of that influence.

The government was not passive in the face of the resistance to its tax policies. Over the course of the late 1980s and 1990s, both the local and national government responded. Surprisingly, the response was overwhelmingly not to crack down on evasion (though that did happen¹⁰⁸), but to reform the tax system in keeping with the demands of both private and public firms. In essence, the central government and some local governments recognized that ruthless exploitation of the private sector was not in their own long-term interests. Local governments also began to realize that private entrepreneurs were free to move their businesses to new areas if their home-town treatment did not measure up.

Though much of the entrepreneurs' illegal behavior, in particular the false registration of private firms, was known to local governments (and to everyone else in

¹⁰⁸In particular following the Tiananmen protests. See Lam, Willy Wo-lap. *Hong Kong South China Morning Post*, 24 August 1989, 10.

town), in many cases it was simply ignored. There are several explanations for why such behavior was ignored. It is possible that local governments were simply corrupt, and local officials were bribed to look the other way. This explanation is unsatisfactory, though, because while tax officials were frequently bribed, no entrepreneur I interviewed mentioned bribing a government official to ignore a false registration, nor do newspapers and magazines mention bribery in this context.

A more plausible explanation is that local governments lacked a strong incentive to collect the extra taxes they would have gotten from nominally private firms. The incentive to collect these official taxes may have been weak because these revenues would appear in the official budget, either reducing the subsidies the local government would get from higher levels or increasing transfer payments it would be forced to make. Localities therefore gained more by charging companies fees and assessments that were not recorded as official revenue.¹⁰⁹ Furthermore, if local governments did not stand to gain from tax revenues, they were motivated to permit tax evasion to encourage the growth of the private sector both for other immediate benefits they provided (jobs, technology, and local prestige) and for future revenues.

During the 1980s, provinces were allowed to keep more of the revenue they raised, but also became responsible for an even larger amount of expenditures. City and county governments likewise were increasingly responsible for financing development from local revenues: as a result, they became more competitive with other regions in enterprise development.¹¹⁰

¹⁰⁹Wong, *Financing*, notes that wealthy counties are taxed more heavily to provide transfer payments to poorer areas in the province. Counties are thus incented to appear poorer than they really are. This has resulted in a growing importance for off-budget funds: extrabudgetary funds in local government and "self-raised" funds at county and township level. These funds have created a "quasi-tax system" outside the formal fiscal system, pp. 4, 12, 13.

¹¹⁰Wong, Christine P. W. *Economic Reform in the People's Republic of China*. 1993.

As local governments' need for revenues grew, the possibility that the private economy could provide those revenues also grew. A variety of figures from the 1990s show the expansion of the private sector. Whereas nationally, the profitability of state firms declined precipitously, profits from private firms increased. For example, from 1990 to 1991, the earnings of non-state firms went up by 36%, while the two-thirds of all state firms that were losing money lost 76% more. Earnings at profitable state firms fell by 15%.¹¹¹ The private economy played an increasingly important role in both China's richest and poorest areas. In Guangdong, China's richest and most economically liberal province, growth of the private sector was fastest. In 1993, the number of Guangdong's private firms had risen by 40% over the previous year. The output value of these companies reached \$870 million U.S., up 75% over a year earlier.¹¹² In Tibet, one of China's poorest provinces, private firms produced 10% of the gross domestic product by 1993.¹¹³ Projecting forward from these trends, an article in the official newspaper, *China Daily*, predicted that by the year 2000, the private economy would produce 20% of the nation's total output.¹¹⁴

As profits grew, so did tax revenues. For example, Tibet's private sector, though small, was very profitable; it paid 40% of Tibet's total commercial and industrial taxes in 1993.¹¹⁵ According to the State Administration for Taxation, nationally, the 15.3 million officially registered private businesses turned over more than \$2.4 billion U.S. in taxes in 1992, an increase of 17% over 1991. For the first time, revenue from the private sector nation-wide exceeded that from Shanghai, the industrial center of the state-owned economy. Taxes from the private economy accounted for 8% of the total industrial and commercial revenue to the state. By 1992, tax payments from the private sector had

¹¹¹ Sun Wenge. "Industrial output rises, but state firms do badly." *China Daily*, 15 November 1992, 2.

¹¹² FBIS. "Guangdong Private Enterprise Groups Develop." 11 March, 1994, 61.

¹¹³ "Roundup on Tibet's Private Sector Economy." *Lhasa Xizang Ribao*, February 4 1994, 1.4.

¹¹⁴ Yin Xin. "Private Sector plays vital role." *China Daily*, 9 April 1993, 2.

¹¹⁵ "Roundup on Tibet's Private Sector Economy." *Lhasa Xizang Ribao*, February 4 1994, 1.4.

increased 15% per year for three consecutive years. Total taxes remitted from 1981-1993 were \$11.2 billion U.S.¹¹⁶

Local governments reacted to this windfall by reconsidering their treatment of private businesses. Many localities began to see the private sector as a goose laying golden eggs, better fed than killed. An article from the New China News Agency noted that, "in economically backward regions, private business has become the mainstay of the local economy and the main source of financial income."¹¹⁷ The Tibetan government announced an aggressive policy of exclusively encouraging the growth of private, township, and foreign-funded enterprises. "All businesses to be built in Tibet, except for those considered vital to the local economy and people's livelihood, are to become collectively-owned or joint-stock firms, not state-owned ones," declared Gyamco, vice chair of the Tibet Autonomous Region.¹¹⁸

An internal county government memorandum from prosperous Zhejiang Province clearly shows the government's strategy. Calling the private economy "a force we must have for economic development," the announcement urged "all relevant parties to think more deeply about this issue [how to develop the private economy], investigate more, study new conditions, come up with new ideas in order that the city government can make policies on the basis of them." The report pointed out that though the private economy had only come into existence in 1981, by 1992 it accounted for one fourth of the county's total industrial and agricultural output value. From 1988 to 1992 (the last year figures were available), private businesses had paid one quarter of the county's tax

¹¹⁶FBIS. "Private Economic Sector's Tax Contributions Noted." 7 December 1993, 29.

¹¹⁷FBIS. 52. 1993.

¹¹⁸FBIS. "Tibet encourages private, foreign funded sectors." from Beijing Xinhua 26 May 93. Printed in FBIS May 2, 1993, 35; Chen Fu'an. "Yue Geti Gongshangye Shang Bannian Wenbu Zengzhang (In the past half year, the individual industrial and commercial enterprises of Guangdong have steadily grown)." *Yuegang Qiyejia Bao*, 16-10-91 1991.

revenue. With new private enterprises opening at a rate of 1000 firms each year, the circular called growth of the private economy “a powerful tendency.”¹¹⁹

As public recognition of the benefits of the private economy increased, stories in the press increasingly portrayed the tax system as unduly harsh and unfair to private firms. An article in a Shanghai magazine decried the city’s steeply progressive tax structure that had ten different tax rates for private enterprises. “The highest rate of income tax is 84%. Even if the taxes are only around 70%, private and individual businesses can’t make money.” The article expressed the twin concerns that either private firms would be driven out of business, or would move to a more hospitable climate in a neighboring province. “A well-run individual business has only fifteen to twenty days of growth in a month and the owner fears he won’t make a profit, while a poorly-run one can’t carry the burden and the business closes... so not a few owners have run to Jiangsu Province or Zhejiang Province.”¹²⁰

A 1993 article entitled “The New Demands of Private Industrial and Commercial Entrepreneurs” advocated replacing the existing tax system with one based on a fixed yearly tax increase, to encourage private entrepreneurs to “increase investment and develop by themselves,” and to “give them a more relaxed environment.”¹²¹ Another reporter objected that though “the market economy is already established, the status of the individual economy is still not clear,” and criticized the lack of a “rational policy” toward it. He characterized the existing policy as trying “to strongly keep its development within bounds” through excessive taxes.¹²²

¹¹⁹Wang Xiangjie, Liu Juliang, Shang Guosheng, Ye Xumin, and Ye Shengsong. “You Yige Yijuntuqi -- Dui Fuyin Geti Siying Jingji de Diaocha (Another force comes to the fore -- Investigation of the individual and private economy of Fuyin).” Unpublished Hangzhou Government Report (Zhonggong Hangzhou Shiwei Bangongting), 1993.

¹²⁰She, 8.

¹²¹Qiyedia Tiandi. “Geti Gongshanghu he Siying Qiyezhuzhu de Xin Yaoqiu (The new demands of individual industrial and commercial businesspeople and private entrepreneurs).” 41. 1993.

¹²²“Siying Qiyejia Xiaosa Dengchang: shichang jingji wu “zhengshi,” “pianfang” zhifen. (Private entrepreneurs come on stage naturally and unrestrainedly: the market economy doesn’t distinguish between “first wife” and “concubine”).” *Qiyedia Cankaobao*, March 30 1993, 1.

A businessman I spoke with who had recently purchased a bankrupt state-owned enterprise in a rural county seat used the press in his battle with the local Tax Bureau. The Tax Bureau demanded that he immediately pay the back taxes owed by the former state enterprise. After failing to convince the tax office that this was unjust, he changed tactics. "Now I'm waging a war in the press. I'm the biggest private business in the county, so every day the reporters come to my office, and if I talk to them, they print it. Now the newspapers support me; they write that I shouldn't have to pay taxes until I've earned money."¹²³ One reason for the newspapers' support was because the entrepreneur had publicly pledged to retain the two hundred employees of the enterprise, and to increase their salaries. Under the former management, the company had no longer been able to pay its workers.

Official Changes in Taxation

Gradually this emerging attitude towards the role of private enterprises was manifested in the government's recognition that the tax system needed to change. Government officials increasingly agreed with entrepreneurs about the injustices of the system. A 1994 article by the China News Agency called the extralegality of tax collecting a "serious" problem, and emphasized the need to rein in some local Tax Bureaus to reduce their "rampant money collecting."¹²⁴

The bias that private businesses had complained about for years was also acknowledged. A government document noted that "the competitive environment is not yet fair enough... in some government regulations, 'public' and 'private' are differentiated and not treated the same." It went on to describe how private enterprises were subject to too many different kinds of taxes, including the creatively named

¹²³Interview 39.

¹²⁴FBIS. "Fifty percent of enterprises guilty of Illegal Practices Zhongguo." From *Xinwenshe* 23 Mar 1994. Printed in FBIS 24 March 1994, 22.

“individual income adjustment tax.” The authors recognize that government consumption crowds out private sector investment: after paying all these taxes, they note that enterprises “do not have enough retained profit to depend on it for their own investment.” The document particularly condemned discrimination against private companies, the “unsuitable restrictions” that “are not applied to collectives or state enterprises.” The report expressed dismay that, in contrast to private owners, managers of township enterprises “do not invest their own money, and take no risk, yet get encouragement, reward and earn substantial distribution benefits.”¹²⁵ Rather than rebuking private businesses for “wearing the red hat,” the authors blamed this kind of government discrimination for creating incentives for them to do so.

The favorable tax treatment given to foreign firms by some localities also began to seem unjust. It irked people that foreigners were treated better than Chinese in their own country. The *China Daily* endorsed this perspective by reprinting an article critical of this practice. It noted that whereas state enterprises paid 55% in taxes, foreign firms often paid only 15% in taxes. “Though localities try desperately to attract foreign capital, they are not interested in allowing private Chinese investment; this has hindered the development of the private economy and forced private capital abroad.”¹²⁶ Thus private enterprises, once considered the dregs of the economy, began to seem more attractive, even when compared to the prized foreign enterprises.

As popular and government perceptions converged with those of private entrepreneurs, tax policy began to reflect entrepreneurs’ desires. One entrepreneur I interviewed in Shanghai recalled an important tax reduction in 1990. He attributed the change to better public perception of entrepreneurs, “the idea of developing the private economy was spread more through society, so the ideas of the leaders changed.” As a

¹²⁵Wang and others. 7.

¹²⁶Fan Hengshan. “Put Foreign, Home Firms on Equal Footing.” Reprinted in *China Daily*, 1993.

result of the lowered taxes, his business took off, increasing its yearly earnings to over \$150,000 U.S.¹²⁷

A local government announcement in 1993 listed several reductions in taxation for private businesses, including elimination some types of double taxation, and tax breaks for technology and manufacturing companies. Reduced taxes were also announced to accommodate slow development time and large capital reinvestment requirements, particularly for science and technology firms. Tax postponements were granted to companies that reinvested earnings.¹²⁸

In 1993, the National Tax Bureau also publicized a new policy with lower taxes for private companies. These policies included ending additional taxation for exporters with foreign currency earnings, provided they reinvested. Companies which assembled foreign parts also received a tax break. Taxes were likewise reduced for private firms with overseas Chinese investment, small-scale technology startups, and new companies with low earnings.¹²⁹

Because of the new policies, business owners had an easier time with the Tax Bureau. The owner of a computer company in Beijing described his new relationship with the Tax Bureau as "very normal":

They help us, and don't give us trouble. Two years ago, there was confusion about how much tax should be paid. But now the regulations have been published, and it's clear to both us and them how much we're supposed to pay. We can all read the document. There is more law now, and we know what we can do.¹³⁰

Another entrepreneur mentioned a recent law that permitted private businesses to include reasonable wages in their costs.¹³¹

¹²⁷Interview 27.

¹²⁸Wang and others, 6.

¹²⁹Qiyedia Cankaobao. "Siying Qiyehuo Jianmian Shui (Private enterprises can obtain reduced taxes)." 9 March, 1993, 1.

¹³⁰Interview 68.

¹³¹Interview 16.

By the mid-1990s the tax system in China continued to be fragmented. Province and district governments offered a patchwork of tax breaks to particular industries or firms. Some areas of the country continued to be inhospitable to private business, and used taxation as a weapon against the perceived capitalist interlopers. Nonetheless, a pattern of change in the tax system toward ending discrimination on the basis of ownership, reducing the tax burden on companies, and codifying policy in publicly accessible laws was emerging.

Because private entrepreneurs and others thought that private business taxes were unfairly high, the central government's tax policy lacked legitimacy. The cost of enforcing this policy was therefore high.¹³² The central government was thus motivated to make taxes seem more just in order to reduce the costs of collecting them. By lowering taxes, the central government increased the perceived legitimacy of the taxes, and reduce the enforcement costs. Furthermore, lower taxes permitted faster growth in the private sector through profit reinvestment. Finally, by lowering taxes the state could avoid the on-going loss of prestige resulting from having its laws broken as a matter of course.

In comparison with the other two institutions that are discussed in this chapter, reform in tax institutions occurred relatively swiftly. An important reason for the speed of the change was that there were no clear losers in tax reform. The local officials who stood to lose short-term revenues, by permitting private businesses to evade taxes, also stood to gain long-term revenues, from the resulting growth in the private sector. Furthermore, local government, which benefited from tax reform, also had direct influence over the organization responsible for implementing tax policy. Because of the devolution of tax responsibility to local areas, the local Tax Bureau, though a branch of a central government organization, nevertheless fell under the sway of the local government. The

¹³²See North, 53, for a discussion of the role of legitimacy in reducing enforcement costs.

central government, in turn, lost revenues from tax evasion but benefited if those revenues resulted in new jobs or increased productivity. However, the central government did not benefit from the extrabudgetary predations of local governments. I discuss the evolution of stronger property protections for private businesses in the following section on legal institutions.

BUSINESS-RELATED LEGAL INSTITUTIONS

Just as they pressed for reform in taxation and banking, private entrepreneurs also pressured the state for reform of business-related laws. The direction of this pressure resulted in the beginnings of the legal infrastructure necessary for a market economy. In this section I look at the development of legal protections for private businesses' assets, including property rights and contract enforcement.

In comparison with the creation of market-suited tax and banking institutions, the creation of a business-related legal system was a more profound undertaking. Rather than involving a reform of policy, it involved changing the way policy was created and administered -- in essence, a change in how the Communist Party ruled. Creation of stronger property rights (both intellectual and otherwise) also jeopardized rent-collection by the state sector and by local officials. Yet some progress was made in the 1980s and 1990s in this task because a diverse coalition supported change, and because the central government had its own strong motives to create a rule of law.

A Legal Vacuum

The rapidly changing economy had left the legal system behind. At the founding of the People's Republic in 1949, the laws of the Guomindang were annulled.¹³³ A new

¹³³“Zhongguo Renmin Zhengzhi Xieshang Huiyi de Gongtong Gangling (Common program of the Chinese People's Political Consultative Conference).” In *Zhonghua Renmin Gongheguo Faling Huiban (The collected laws and regulations of the People's Republic of China)*, 16-25. 1 (1949-50). Beijing:

legal system under development was virtually dismantled after the 1957 anti-rightist campaign. From this point forward, decrees and regulations took the place of laws, and many of these were not announced outside Party organs.¹³⁴ During the Cultural Revolution, there were no practicing lawyers in China, and until 1988, all law firms were funded by the government. As a result, Chinese citizens were suspicious of lawyers' ability to uphold the law impartially, instead seeing them as executors of government whim.

Given this situation, business owners to whom I talked perceived that the growing non-state economy was emerging into a legal vacuum. As one entrepreneur explained, "before, it was a planned, administered economy, and they didn't need laws, but now they need lots of them to protect, support, and rule the new economy. The reforms will bring out problems that can be solved with laws." The 1980s and 1990s were a transition period where the state scurried to catch up with this changing situation. During this shift, foreign invested enterprises, private enterprises, and individual enterprises suffered from a lack of legal protection, and constantly lobbied the government to redress these shortcomings.¹³⁵

One of the main fears of private entrepreneurs in the first half of the 1980s was that the Party leadership would change its mind about private business, and once again ban it. If this happened, not only would their businesses be seized, but they might be subject to political persecution, like the capitalists of the 1950s. In addition to this preoccupation about a wholesale change in policy direction, entrepreneurs also worried

Renmin Chubanshe, 1952, cited in Alford, William P. *To Steal a Book Is an Elegant Offense: Intellectual Property Law in Chinese Civilization*. Studies in East Asian Law, Harvard University, Stanford University Press, 1995, 56. These laws were weak in any case (Coble, Parks M Jr. *The Shanghai Capitalists and the Nationalist Government: 1927-1937*. Cambridge: Council on East Asian Studies, Harvard University, 1980, 59).

¹³⁴Lieberthal, Kenneth. *Governing China: From Revolution Through Reform*. New York: W. W. Norton, 1995, 151.

¹³⁵Interview 48 and others.

about local officials taking it upon themselves to control the 'scourge' of private ownership by appropriating their businesses.

While concerns about legal protection abated somewhat during the early 1990s, business owners still had residual fears. A woman described running a private business as like "walking on a thin line." "I feel that I really own nothing," she said, "I feel burdened, and I am tired. Private business is dangerous because the policy could change."¹³⁶ Though such sentiments were somewhat unusual by 1995, entrepreneurs were nonetheless still very concerned about other threats to their investments.

One man I interviewed had been victim of abuse of power by the city government. He owned a large house because his grandfather had been a Qing Dynasty official. The space allowed him to pursue his passion for training boxers because it was large enough to be used as a gym. But the city government, claiming they were going to expand the road, forced him to sell them the house for 98,000 yuan. They gave him a new house, in a rural area, but it was too small to train boxers, so he was forced to give up training them. Furthermore, the government had deceived him, he later discovered. "After they forced me to sell, they didn't expand the road, but sold the house to a company that had a lot of money. This way the city government earned money." I asked him if he could have gotten a higher price had he sold the house to someone else. "I had no choice about the price, they told me the price, because this is a socialist country. But if I could have sold it to someone else, of course I could have gotten more money," he averred.¹³⁷ Other entrepreneurs were concerned about smaller-scale appropriations. Many agreed that Party cadres and government bureaucrats took advantage of private businesses by assessing extra fees, often because the officials were afflicted with the "red eye disease" of jealousy.¹³⁸

¹³⁶Interview 14.

¹³⁷Interview 55.

¹³⁸Interview 48, 67.

Entrepreneurs needed protection not only against confiscation by state agents, but also against theft by individuals. Though state- and collectively-owned enterprises had legal protection against robbery, private enterprises had no such protection. A man I spoke with related a story about a business owner in Haidian whose accountant had stolen 900,000 yuan from his company. The boss tracked him down and had him arrested, but the man didn't have the money with him. In the existing law, stealing from the company was equivalent to stealing from him personally. Since theft from an individual was considered a dispute rather than a crime, the accountant was not prosecuted. The Corruption Bureau, which handles such incidents for state- and collectively-owned firms, did not serve private businesses. As the man whom I interviewed commented, "now, the only way to resolve this kind of problem is personally to get some people to go beat up the thief. It's rule by people, not rule by law. This is changing, but slowly. Is the law stronger, or is personal power stronger? That is the question."¹³⁹ He felt the emergence of a private economy demanded more, and stronger, laws.

When I asked another owner what policy changes his business needed in order to continue growing, he replied that "the law has to protect individuals' assets. Now they are not so safe. If a worker steals from his company, the police don't care -- they think it's a problem between people." He also compared the treatment of private businesses with that of state-owned ones. "If somebody steals from a state enterprise, the police care. They need to change their concepts. We need much better laws; more regulations need to be formulated. All private entrepreneurs are concerned about this same thing," he asserted.¹⁴⁰

¹³⁹Interview 67. 'Rule by people' versus 'rule by law': *ren2zhi4, fa3zhi4*.

¹⁴⁰Interview 38.

Six private entrepreneurs voiced a similar complaint in a 1996 interview in the national magazine *Gaige* (Reform). They maintained that they were not given adequate legal protection against the predations of their own employees:

We are still not equal to state enterprises because their embezzlers are considered guilty of corruption, and their kickback-takers are considered guilty of bribe-taking, but not ours -- so how can we guard against this theft of our assets? Under these conditions, we can't get suitable returns to managing commercial and industrial enterprises, so we're thinking of closing our doors and putting our money in the bank, where we can get reliable interest.¹⁴¹

The interviewer pointed out that, even though in most other countries, these crimes are also considered only stealing, not "corruption" or "bribe-taking," this situation is a problem in China because "the heaviest punishment for corruption is the death penalty, while most thefts unfortunately do not carry the danger of losing one's life." In the entrepreneurs' view, without the death penalty, workers who steal enterprise assets would not be intimidated. The interviewer and the entrepreneurs agreed that extreme cases of embezzlement should be punishable by death.¹⁴²

In addition to demanding property rights for material assets, the expanding population of high-tech private business owners in the 1990s began to call for more intellectual property rights as well. As with material assets, private companies needed protection from their own employees. Jealousy in employees played a role: "my workers start wondering why I'm earning so much more than they are, and they think they should earn more," said one annoyed business owner. "They don't understand that I'm getting more because I'm taking the risk. Sometimes my employees will leave and steal the technology." He believed that there was no use in trying to get the state to redress the problem. "These workers leave for very large, very powerful companies. The other companies take the technology, improve it, and sell it." Because the entrepreneur's father

¹⁴¹ Zuo Dapei. "Fubai ye weihai siying jingji de fazhan (Corruption still hurts private business development)." *Gaige* (4 1996): 8-9, pp. 8-9.

¹⁴² Zuo, 9.

was a high-ranking Communist Party cadre in the provincial government, he was aware that complaining about the theft would be useless. “The government doesn’t care because it doesn’t affect them. There’s too much of this kind of thing. I know complaining is no use because I know how the Communist Party works. My whole family are Communist Party cadres.”¹⁴³ Similarly, the owner of a software company in Beijing had had two or three employees leave to start rival firms using software developed with his yuan. He called copyright protection “a major issue in the development of China’s software industry.”¹⁴⁴

A man who owned a company called Rising Star Electronics, which manufactured medical machines, ran into a slightly different predicament. After luring away some of Rising Star’s employees, an entrepreneur in a neighboring city opened a copycat factory and began manufacturing a product with identical documentation, product description, and exterior appearance. Though the innards of the machine were “junk,” according to Rising Star’s president, because it sold for half as much, it attracted many customers. In this case the law supported Rising Star, but a corrupt official at the rival’s local Industrial and Commercial Bureau attempted to protect him by slowing down implementation of the law. Altogether it cost Rising Star 500,000 yuan in lost sales and took one year to put the copycat firm out of business.

As with tax reform and banking reform, the press served as a communication channel between private business and the government. An article expressing the requirements of private business stated that “they want the government to clarify laws regarding the responsibilities of individual and private enterprise owners.... They would like the National Council and the provincial government to restate the regulations

¹⁴³Interview number withheld.

¹⁴⁴Interview 26.

regarding assessments and fee standards, so as to not have each government level make up their own, in order to protect their rights and interests.”¹⁴⁵

State Motives for Developing Market-Related Law

The state had three motivations for expanding and strengthening the market-related legal code in the 1980s and 1990s. First, the central government was motivated to build a legal system to safeguard its interest in the private sector. A legal infrastructure would encourage private sector development and hence increase the tax revenues and jobs provided by the private sector. Furthermore, stronger legal protections for the private sector would reduce unauthorized predations on the private sector by lower-levels of the government. Laws thus protected not only the private sector itself, but also higher-level governments' claim on private sector resources. Some lower-level governments also began to realize that an uncertain legal environment jeopardized private sector growth, and in turn, their own future extractions. Second, a stronger legal code was seen as a means of combating corruption in the Party and state organs. Third, the weakness of the law negatively affected many state-, collective- and foreign-owned businesses.

As the reforms progressed, the Chinese government began to realize that private entrepreneurs' insecurity about the stability of the policy, and their fear of being expropriated and persecuted, was influencing their behavior in a way deleterious to the state's interests. Because private business owners feared a large firm would attract unwanted attention from the authorities, some entrepreneurs chose to spend their profits in consumption rather than reinvestment. As an entrepreneur in Shanghai said, “I don't dare to advertise too much, because I fear the government will pay too much attention.

¹⁴⁵Qiyecjia Tiandi. “Geti Gongshanghu he Siying Qiyezhu de Xin Yaoqiu (The new demands of individual industrial and commercial businesspeople and private entrepreneurs).” 41. 1993. *guo fuyuan*.

and the Tax Bureau or the Commercial Bureau will come pay us a visit.” He offered an old saying that summarized his situation: “people fear getting famous, pigs fear getting fat.”¹⁴⁶

As late as 1993 a county government memo urged cadres to implement new regulations supportive of private businesses. Despite a recent national Party circular restating the legitimacy of the long term development of a private economy¹⁴⁷, cadres were still holding back from supporting private businesses, it said. “In some management departments, thoughts such as, ‘Does supporting the private economy run counter to the overall direction of socialism?’ and ‘Will I be criticized by the people?’” persisted. According to the memo, cadres feared a change in policy, and wanted to avoid “rightist errors.” “For these reasons they don’t dare open their mouths and, with justice on their side, lead and support.” But many policies required the purposefulness of the cadres in order to work, the memo pointed out.¹⁴⁸

This failure to reassure private business owners of their legitimacy in the eyes of the state led to underachievement in the private economy, according to the memo. Echoing the thoughts of the Shanghai businessman quoted above, the memo stated that owners “want to grow larger, but they fear growing larger will put them at larger risk.” The memo included its own aphorism: “the large tree catches the wind.” Rather than push their luck and risk incurring public criticism and “losing their good name and their profits,” many business owners chose instead to “pass their days peacefully and stably.... They feel they’ve already earned a good amount, and they’ll be one of the relatively well-off.”¹⁴⁹ Because of the perceived risk in growing larger, ten-year old firms that might otherwise have grown to a yearly production worth ten million yuan had leveled off at

¹⁴⁶*Ren pa chu ming, zu pa zhuang*. Interview 9.

¹⁴⁷The “Big Fourteen” circular.

¹⁴⁸Wang Xiangjie.

¹⁴⁹*xiao3 kang1*

under one million.¹⁵⁰ Since these stagnant firms translated to stagnant tax revenues for the local government, local governments' motivation in providing a stable regulatory and legal environment was clear. Though local cadres would lose some discretionary authority, and short-term revenues, they also reaped the benefits derived from a more predictable environment. Local cadres also took the risk of being labeled 'pro-capitalist' should sentiment in the central Party leadership shift against the private economy, but the same cadres also stood to gain revenues for their organization; thus risk and reward could be weighed within a single organization.

The connection between uncertain legal protection and stagnation in the private economy was discussed in prestigious national publications as well as in internal Party documents. An early announcement of the drafting of laws designed to guarantee the smooth development of private business cited the number of people employed by private businesses, their rapid rate of expansion, and the fact that they "provide a strongly competitive force against the state-run enterprises" as reasons for improving the law. The laws were designed to clarify the legal status of the enterprises and protect their property rights and management methods.¹⁵¹ In late 1988, China announced provisional regulations designed to protect the rights and interests of privately-owned enterprises, stipulating, for example, that private businesses could reject usurious fees charged by government departments.¹⁵² Despite these steps, in 1993, an article in the *Economic Daily* asserted that the government needed to remove the fear that private entrepreneurs had in terms of politics and law. "Many private owners, when they earn profit, have the choice of reinvesting or consumption," it stated. "But reinvesting means hiring more workers, and some private owners are not willing to do this for fear. So they consume

¹⁵⁰Wang Xiangjie.

¹⁵¹Xinhua General Overseas News Service. "China Mulls Law on Private Business." 1988.

¹⁵²Boatman.

instead.”¹⁵³ The state’s interest in allaying business proprietor’s concerns of expropriation and persecution was manifest.

While these issues were being discussed at all levels of the government, some localities were learning, through trial and error, that without legal protection, private investment dries up. The case of the “Eight Magnates” in Liu City, Zhejiang Province shows this process in action. In the late-1980s, eight successful factory owners in the city were accused and convicted of economic crimes because they were too wealthy, and had become wealthy too “inexplicably.” Immediately following this conviction, the recently revived private economy began to decline rapidly. Even though the Liu City government quickly issued a ten-point measure encouraging the development the private economy, the residents paid attention to the city’s actions rather than its words.¹⁵⁴

The city therefore assembled political and legal officials to re-investigate all aspects of the “Eight Magnates” case. The “magnates” were subsequently acquitted of the charges. According to the local newspaper, the redressing of this case caused the area’s economy to “burst like a river through opened floodgates. After the case, it was as though people could hear a resonant, seductive voice encouraging them: ‘Get rich.... Go get rich....’”¹⁵⁵ Through these events, the benefits of protecting entrepreneurs’ legal rights became more apparent to this city’s officials.

The link between private property protection and economic growth was also explicitly understood in terms of day to day interactions with the government, as evidenced in media analyses. An article delving into why private business had not grown more in 1990 placed blame on lack of codified rights for private business vis-a-vis local bureaucracies. The author decried the “three indiscriminates” to which bureaucrats subjected businesses: indiscriminate fee collection, indiscriminate fining, and

¹⁵³Zhong.

¹⁵⁴Ye.

¹⁵⁵Ye.

indiscriminate cost assessment. Depending on the locality, private businesses were subjected to up to twenty different fees, including public order fees, road fees, and security fees. The author argued that the hesitancy of private business owners to reinvest was reasonable given the Communist Party's bad track record: "in the 1950s private owners were transformed, in the 1960s they were hacked down, in the 1970s they were ruthlessly chased, and not until the 1980s did they have some peace of mind." This history of poor legal rights was undermining the "healthy development" of the private sector, according to the article, and had to be redressed.¹⁵⁶ In a similar vein, a 1992 article reporting a city government's attempts to encourage the private sector stressed that private businesses had the right to refuse paying the "three indiscriminates," and the right to report to relevant authorities any attempts by lower-level officials to collect extra-legal fees, assessments, and fines. These cases would be heard promptly, the article assured.¹⁵⁷ In another example, the Guangzhou city government was active in restraining the predatory behavior of the district governments under its jurisdiction. It restored "membership dues" that had been collected by the Haiju District Tax Bureau from 2,270 private business owners on ten city streets.¹⁵⁸

Officials of the Zhuhai Special Economic Zone similarly realized that forgoing indiscriminate fees could lure private businesses from other areas. The Zhuhai Industrial and Commercial Bureau decided to reduce the cost and hassle of registering new businesses. In a newspaper announcement, the bureau officials stated that "to encourage private entrepreneurs from outside the province to invest in Zhuhai, we are making it as

¹⁵⁶Wang Tianjin. "Dangqian Yingxiang Geti Jingji Fazhande Wenti yu Duice (The current problems and countermeasures influencing the development of the individual economy)." *Yuegang Qiyejia Bao*, September 4 1991.

¹⁵⁷Shen Shaozhi. "Gudong zhichi geti siying jingji jinyibu fazhan: woshi chutai jiuge fangmian xin zhengce guiding (Encourage and support the development of the individual and private economy: this city announces new policy regulations with nine aspects)." *Wenzhou Ribao*, December 23 1992, 1.

¹⁵⁸Li Min, Zhou Ruicai, and Chen Lin. "Guangzhoushi geti, siying jingji jiankang fazhan (Guangzhou city's individual and private economy is developing healthily)." *Yuehai Qiyejia Bao*, January 8 1992, 2.

easy as possible for entrepreneurs from outside the city to set up businesses. They should be able to hang their sign within a week of applying, or, in the best case, on the same day.” In the same article, the author noted that Zhuhai was succeeding in attracting increasing amounts of outside investment.¹⁵⁹ Though this example does not pertain directly to the formation of legal institutions to prevent “indiscriminate” fee collection, it does show that some regional officials understood that they were in competition with other localities for private investment, and that predation put them at a disadvantage in this contest.

External oversight on bureaucrats’ actions was created at the national level with the passage of the Administrative Litigation Law in October, 1990. This law was the first comprehensive attempt by the People’s Republic to regulate government action through judicial review. (Before the passage of the Administrative Litigation Law, bureaucrats’ decisions were internally supervised by higher levels of their own bureaucracy.¹⁶⁰) The law provided rights and procedures for individuals and corporations to appeal decisions by state agencies in the People’s Courts.¹⁶¹ The People’s Courts were empowered by the legislation to stop illegal administrative actions, repeal illegal sanctions, and force administrative action.¹⁶²

This new administrative oversight legislation contained concessions to those whose interests were hurt by the new law, however. A study of the passage of the law concluded that opposition by bureaucrats who did not want their power curtailed led to elements in the law which weakened the judicial review, including ambiguities, lack of

¹⁵⁹Wu Zhitang and Huang Jianguo. “Woshi Siying Qiye Fazhan Ru Yudeshui (This city’s private businesses are developing like fish in water).” *Zhuhai Jingji Techu Ribao*, November 28 1992.

¹⁶⁰Two specialized supervisory organs, the Discipline Inspection Commission of the Communist Party and the Ministry of Supervision, were disbanded by the end of the Cultural Revolution. Potter, Pitman B. “Policy, Law and Private Economic Rights in China: the Doctrine and Practice of Law on Economic Contracts.” Dissertation, 1986, 270.

¹⁶¹Ibid., 274.

¹⁶²Ibid., 276.

transparency in the process, constraints on the power of courts to overturn decisions, restrictions on the matters that could be reviewed, and limits on the finality of courts' decisions.¹⁶³ Stories in the Chinese press indicate that some local officials also resisted implementing legal reforms because the new laws reduced their discretionary authority.¹⁶⁴

Despite some weaknesses, new laws limited the arbitrary exercise of cadres' power in cases that came to trial. For example, in the case of "Shi Lichang versus the People's Government of Laoqiao Township, Jiangxi province," a township government was forced to return items confiscated from a private shopkeeper and pay damages for its illegal actions. As part of an effort to increase traffic flow, a Laoqiao Township work team was removing illegal buildings from the side of a road. Township official Luo Pengling had determined that the shop of Mr. Shi was too close to a township road, and should be demolished. The next day, after complaining that Shi was not taking down the shop quickly enough, Luo himself took up a hoe and began smashing the windows. Mr. Shi, his wife, and Mr. Luo quickly got into a fist fight. That evening, the Township work team demolished the shop and seized a Jinggangshan television set, a Pagoda electric fan, and an Eternity bicycle as guarantee that Shi would pay Luo's medical expenses.

When Shi appealed this action, the county People's Court determined that though the shop was illegal, and should have been demolished, "a government agent should exercise authority and enforce the law in the right way." Luo had violated the law by

¹⁶³ Ibid., 273, 276-87.

¹⁶⁴ "Enforcement of Law Is Called Very Slack." *China Daily*, 8 October 1988, 1, cited in Feinerman, James V. "Legal Institution, Administrative Device, or Foreign Import: The Role of Contracts in the People's Republic of China." In *Domestic Law Reforms in Post-Mao China*, ed. Pitman B. Potter, 225-244. Armonk, NY: M.E. Sharpe, 1994, 235. Susan Young also points out that local officials had an incentive to maintain a system with little formality or oversight because they benefited by making local policy which extracted revenue from private enterprises through local taxes, assessments, and fees. These extractions did not have to be reported, much less handed over, to higher levels. She neglects to point out that the central government had exactly the opposite incentive. Young, Susan. "Private Entrepreneurs and Evolutionary Change." In *China's Quiet Revolution: New Interactions Between State and Society*, ed. David S. G. Goodman and Beverley Hooper, 105-125. New York: St. Martin's Press, 1994, 113.

failing to give Shi the required 15 days to appeal the demolition decision to the courts, by failing to provide a formal notification to Shi of the penalty for not demolishing his shop, by using excessive force in enforcing the township's decision, and by exceeding his authority in confiscating property as a guarantee for his medical expenses. If medical expenses were owed, the township should have obtained them through legal action, the court said. Laoqiao Township was ordered to return the items and pay 236 yuan to Mr. Shi for economic losses and medical expenses.¹⁶⁵

In another case, the mere act of bringing suit caused a government office to return confiscated business equipment and rescind a fine. While traveling down Jiangsu Province's Hengjing river to visit his parents, fisherman Wu Weilin was stopped by officials of the Reed Marsh Branch of the Fishery Administrative Office. Upon finding two storage batteries and two reverse transformers aboard, the Fishery officials decided that Wu had been using electricity to fish in violation of China's Fisheries Regulations. They coerced Wu to confess, seized the batteries and transformers, detained his trawler, and fined him the maximum fine of 1,000 yuan. When Wu filed an appeal against this decision, the higher level of the Fisheries Administration decided that the Reed Marsh Branch had been in error, revoking the fine and returning the equipment. Wu requested that the case be withdrawn since his complaint had been answered. The court acceded, commenting that the Reed Marsh Branch had breached legal procedure by failing to investigate the case before giving a verdict, and by exceeding their authority because the size of the case indicated that it should have been handled by the higher-level Fishery Administration Office of Suzhou City. According to the Administrative Procedure Law of China, officials' decisions which exceed their administrative authority are

¹⁶⁵Leung, Priscilla Mei-fun, ed. *China Law Reports: Administrative Law, Economic Law*. Vol. Three. Hong Kong: Butterworths Asia, 1991, 229-233.

automatically null and void.¹⁶⁶ Thus, the law safeguarded proper administrative *process* as well as proper content.

Because private business owners controlled resources, they were often targets for officials seeking both personal and institutional gain. Such was the case of Ma Fuxiao, a lumber trader in Ningxia. A local assistant tax collector, Wang Haoyan, had previously requested a 500 yuan loan from Ma, and had been refused. When Ma brought lumber to sell at the county bazaar, tax collector Wang demanded that Ma pay tax on the lumber before he sold it. Though Ma paid half the tax, Wang returned to the bazaar a few days later, drunk, and demanded the rest of the tax. Trader Ma was then required to make a self-criticism to the County Tax Bureau, whereupon he was fined 200 yuan for evading taxes. When Ma refused to pay the fine without a written statement of his offense, the tax officials from the bazaar went to his home and confiscated his television set. In the subsequent lawsuit, the court declared that the actions by the Tax Bureau violated legal procedure. According to the “Rules for the Implementation of the Regulations of Business Tax Collection,” taxes are not owed until income has been received. Therefore, Ma had not evaded taxes and should not have been fined. Furthermore, Wang acted out of malice because of his rejected loan. Finally, the Tax Bureau should have given written notification to the business of any fines incurred, and should not have confiscated his property.¹⁶⁷

In another such case, in Shaanxi Province, the manager of a local brewery got into a fight one night with a private businesswoman against whom he held a grudge. When his finger was jammed in the businesswoman’s shop window, he got his uncle, head of the county Public Security Bureau, to arrest her for assault. She was sentenced to seven

¹⁶⁶Ibid., 214-219.

¹⁶⁷Ibid., 132-3.

days in jail. Although the prefecture-level Public Security Bureau upheld the decision, the People's Court of the prefecture overturned her sentence.¹⁶⁸

These cases show the kinds of behavior that government officials exhibited in many other legal cases and newspaper accounts from the 1980s and 1990s. Officials were often high-handed, vindictive, and arbitrary in their decisions. They frequently got into scuffles with perceived offenders, acted while drunk, and seized personal property. New laws enacted during the 1980s and 1990s clearly defined the limits of officials' authority and the correct procedures for exercising that authority. Though these laws arose in the context of providing a stable environment for business, and controlling the corruption of officials, to the extent that they were enforced, the laws sharply limited the arbitrary exercise of political authority, a key aspect of political liberalization.

In these cases one can also see that the law served to constrain the expropriations of lower-level officials from private enterprises. Laws made it more difficult to collect ad hoc taxes, fines, and assessments: exactly the kinds of expropriations that local governments could keep for themselves. From the perspective of institution-building, it is interesting to note that the cost, in terms of lost revenue, of the construction of stronger property rights was born disproportionately by lower-level governments. Thus the unauthorized actions of local governments, which in some localities seemed to help the construction of tax institutions favorable to private businesses, had the opposite effect in the case of the construction of legal institutions.

In addition to being motivated by the long-term prospects of more tax income and jobs from a larger private sector, the government was also motivated to strengthen and clarify the legal rights of private businesses because doing so would correspondingly reduce corruption among government cadres. If the rights and responsibilities of private

¹⁶⁸*Ibid.*, 1-8.

businesses were not clear, cadres could demand payments without the entrepreneur knowing whether or not they were legitimate. Both private business owners and the government saw clarification of laws and regulations as an important part of the solution to corruption.

While enterprise owners with whom I spoke blamed “traditional culture” for the cadres’ behavior, they saw the answer not to be re-education, but “more scientific political management,” which would include the carrot of higher salaries and the stick of stricter rules.¹⁶⁹ Entrepreneurs were explicit about the need for more laws rather than an anti-corruption political campaign, which the Party had carried out in the past with little lasting impact. One interviewee cited two examples of successful legal programs, both in China and abroad, as models for reform:

In Beijing, the traffic used to be extremely chaotic, people would drive right through red lights. But the government made very specific traffic laws, with specific fines, and the traffic is now very law-abiding. The government must clarify exactly what cadres can’t do, with perhaps one hundred laws about it, for example, if you eat a free meal, it’s one year in prison; if you accept gifts you are not supposed to, it’s this many years in prison. Like in Singapore -- in Singapore, there are eighteen laws about corruption -- you can’t eat at a nice restaurant, and so forth.¹⁷⁰

Thus rather than perceiving corruption as an *immutable* aspect of age-old Chinese culture, private enterprise managers saw it as a bad habit that would be resolved by a different institutional framework. New laws, rather than the slow march of gradually changing opinions, was the answer consistently put forth by business owners to the problem of corruption.

Government officials at all levels also began to see corruption involving the unregulated market as a growing problem. Zhang Shuhai, the chief procurator of Hunan Provincial People’s Procuratorate noted with dismay that Party and government workers “seeking personal gain through abuse of power, embezzlement and bribery, extorting

¹⁶⁹Interview 73.

¹⁷⁰Interview 64.

money, bending the law for the benefit of relatives or friends, manipulating power for personal ends, and committing dereliction of duty... has been on a continuous rise."¹⁷¹ In an interview with former-President Jimmy Carter, Chinese head of state Jiang Zemin responded to a question about corruption by stating that one of China's main priorities was to strengthen its legal system, particularly business law and procedures. Jiang acknowledged that if China wanted to be a major economic power, it had to make rapid improvements in this area.¹⁷² In a speech to the State Council, Yao Yilin called for thorough implementation of the forthcoming Administrative Litigation Law in order to combat abuse of power and corruption among Party officials, stating that such abuse hurt the legitimacy of the Communist Party.¹⁷³ Thus, a stronger legal infrastructure seemed a possible solution to concerns both about China's power abroad and the Communist Party's authority at home.

The third factor motivating government implementation of legal protections for business was the benefits such protections would provide to non-private firms, including foreign and collective ventures. As foreign investment in China expanded during the 1980s, foreign companies grew increasingly vocal in their demands for clearer business laws, better protections for their investments, and superior enforcement of contracts.

These complaints led the Chinese government to see the law as a problem demanding resolution. By 1987, Gu Mu, State Councilor and head of China's Foreign Funds Management Group, viewed law as a major problem in trade, saying "the Chinese

¹⁷¹ *Changsha People's Radio Network*. "Investigate and Handle Major and Crucial Cases to Safeguard the Normal Order of Operation of the Socialist Market Economy," 1 Aug 93, printed in FBIS as "Hunan Chief Procurator on Anti-Corruption Measures," 6 August 1993, 40.

¹⁷² Kwang, Mary. "US Actions on Tibet Based On Inaccurate Data, Says Jiang." *The Straits Times*, May 29 1993, 10. Jiang's official title is General Secretary of the Secretariat.

¹⁷³ "Yao Yilin on Administrative Procedures Law." Beijing Xinhua Domestic Service 1 Sept. 1990, printed in FBIS 4 Sept. 1990, 32, cited in Potter, Pitman B. "The Administrative Litigation Law of the PRC: Judicial Review and Bureaucratic Reform." In *Domestic Law Reforms in Post-Mao China*, ed. Pitman B. Potter, 270-304. Armonk, NY: M.E. Sharpe, 1994, 288.

legal system fails us.” Though the system had improved since economic reforms began in 1978, more progress was needed and better enforcement. The arbitrary fees and assessments private businesses objected to plagued foreign firms as well. “Some departments charge foreign-funded enterprises at random. Such phenomena seriously tarnish China's reputation and must be checked,” Gu said.¹⁷⁴

As the Chinese government recognized the importance of market-related law, it sought to understand the legal practices of market economies and to reassure foreigners of its intent to conform to these practices. Chinese legal exchanges with other countries and international conferences became commonplace in the late 1980s and 1990s. A conference explaining economic laws to Japan was held in Shandong Province in 1985, and included one hundred officials from all organizations related to economic laws, including the Legislation Committee of the National People's Congress, the State Planning Commission and the State Economic Commission. China convened similar conferences with Australia, the United States, Britain, France and West Germany in order to attract foreign investment.¹⁷⁵ In 1987, China opened its doors to about 1,000 U.S. lawyers and businessmen for a conference aimed at developing China's foreign trade and investment laws.¹⁷⁶ A delegation of fourteen provincial and municipal judges took a two-week study trip to Thailand in 1994.¹⁷⁷ Also in 1994, one hundred legal experts from Asia and Europe met for a two-day seminar with the Chinese Minister of Justice, at which intellectual property rights, foreign tax law and investment laws were discussed.¹⁷⁸

In one instance, in response to complaints by Singapore businessmen that Chinese investment laws were too complicated and the process of legal redress was too slow, a senior Chinese judge assured Singapore investors in 1994 that their legal rights

¹⁷⁴Reuters. “U.S. - China Conference to Focus on Business Law.” 1987.

¹⁷⁵Japanese Economic Newswire. “China's Economic Laws to be Explained to a Big Confab.” 1985.

¹⁷⁶Reuters.

¹⁷⁷Juan, Kate Yu. “China “Will Protect Singapore Investors”.” *The Straits Times*, November 27 1994, 17.

¹⁷⁸Xinhua News Agency. “China Speeds Up Reform on Business Law.” May 9, 1994.

would be protected in China. "As long as your views and demands are justifiable, and can be supported with full and sound evidence, and that your rights are indeed rightful and lawful, you will definitely obtain legal guarantee from us," said Guangdong High Court President Mai Chongkai.¹⁷⁹

Flagrant copyright violation of U.S. materials, including the export to Southeast Asia of CDs and CD-ROMs manufactured in south China factories, coupled with mounting trade deficits, led the U.S. to put increasing pressure on China to conform to international law. In addition to this pressure, China had its own motives to placate the industrialized nations. The lack of intellectual property protections in China meant more than lost revenues for Madonna and Microsoft; foreign firms were also more reluctant to transfer technology to Chinese partners and to invest in developing high technology in China.¹⁸⁰ Since technology transfer from advanced nations was one of the government's highest priorities, fostering it provided a powerful incentive to change the law. Some Party leaders further recognized that the lack of intellectual property rights was stifling domestic technological innovation and diffusion. Moreover, they perceived that in the near future, Chinese inventors would require better protection for their ideas abroad. Intellectual property rights for foreigners in China would have to conform to international standards for Chinese to receive reciprocal treatment abroad.¹⁸¹

A Stronger Law

Chinese law was gradually strengthened during the 1980s and 1990s. Several laws were passed to establish intellectual property rights. In 1982, a Trademark Law was passed; in 1984, a Patent Law was passed, and in 1990, a Copyright Law was passed.¹⁸²

¹⁷⁹Juan.

¹⁸⁰Shao, Alan T. and Paul Herbig. "Marketing Inside the Dragon, Despite China's Bureaucracy." *International Marketing Review* 12 (1 1995): 65-76.

¹⁸¹Alford, 67-8.

¹⁸²Ibid., 75, 69, 78-9.

In 1991, after a Special 301 investigation of China's lax protection for U.S. intellectual property, and six rounds of negotiations, the two countries signed a memorandum that committed China to protect U.S. computer software, sound recordings, and trade secrets. China agreed to fortify its patent law by 1993, and to abide by the Berne Convention by October, 1992 and the Geneva Convention on Phonograms by June, 1993.¹⁸³ In 1995, the U.S. government continued negotiations with the Chinese government to augment intellectual property protection and remove barriers to U.S. exports.¹⁸⁴

In addition to factors motivating the government to implement stronger intellectual property rights, there were also factors that discouraged the strengthening of these rights. As a "late late" developer, China needed to import most of its technology. Implementing strong patent and copyright protections would therefore cost the country a substantial chunk of its foreign currency earning in payments abroad. Furthermore, with weak patent laws, state enterprises accrued the bulk of the proceeds from the inventions of their employees. Moreover, both Chinese imperial and communist ideologies resisted the "privatization and commodification of knowledge," and emphasized censorship rather than the author's ownership rights in legislation concerning published materials.¹⁸⁵

For these reasons, the new legislation described above, while improving property rights, also limited the financial returns to individual inventors, curtailed protection for foreign products that were easy to duplicate (such as pharmaceuticals and chemicals), and maintained state censorship over publications.¹⁸⁶ Furthermore, while the laws provided for appeals in the people's courts, most violations of these new laws were to be handled by a person's work unit or by Party authorities at a higher level. This provision seriously

¹⁸³These Conventions protect U.S. copyrighted software and sound.

¹⁸⁴Shao and Herbig.

¹⁸⁵Alford. 82. See also 9-94 for a history of intellectual property rights in imperial and communist China.

¹⁸⁶Ibid.. 71, 72, 78-9.

curtailed the protections provided by these laws, given workers' dependence on their work unit and the importance of vertical relationships in China.¹⁸⁷

Contract law also improved under the enticement of foreign investment. In 1987, China adopted the 1980 United Nations Convention on Contracts for the International Sales of Goods, which contained specific provisions regarding dispute resolution and the obligations of buyers and sellers.¹⁸⁸ In the mid-1990s, China signed a trade pact with Korea which included an agreement to strengthen business contracts in an attempt to lure investment from the cautious chaebol.¹⁸⁹ By 1994, Chinese courts reliably awarded assessments to foreign firms whose Chinese partner had violated their contract.

Though the devolution of control over state firms from the government to the firm's own management meant that the assessments were harder to collect, they nonetheless could dependably be obtained through appeal to higher administrative levels. New laws also limited the arbitrariness with which government bureaucrats could exercise authority. In 1990, Chinese law was amended to supply stronger provisions against nationalization of foreign holdings.¹⁹⁰ An international law expert in Hong Kong was impressed by the overall progress in China's development of business law, "over the last fifteen years, [the Chinese] have cranked out an enormous body of not only central, but also local, legislation. Where they've been weak is with enforcement. But they're increasingly sensitive to that," said Jerome Cohen of Paul, Weiss, Rifkind, Wharton and Garrison. He pointed to the 200,000 contracts signed with foreign firms as an indicator of the strength of the law.¹⁹¹

¹⁸⁷Ibid., 73.

¹⁸⁸Feinerman, 233.

¹⁸⁹"Chaebol "are large-scale industrial conglomerates. Burton, John. "China Pact Entices S Korea's Big Guys -- An Expected Surge in Trade and Investment by Conglomerates." *The Financial Times*, April 12 1994, 5.

¹⁹⁰Shao and Herbig.

¹⁹¹Business Times. "Enforcement? Sure -- But Don't Be Court-Fixated." 19. 1994.

The adoption of international standards in laws for foreign enterprises “trickled down” to domestic enterprises after a few years’ delay. For example, a weak 1981 Economic Contract Law was revised in 1993 to adjust it to the new market economy and to involve the People’s Courts more extensively in dispute resolution rather than rely on higher-level administrative appeals to resolve disputes among contracting parties.¹⁹²

Changes in the law were reflected in new legal publications explaining the reforms. The surge in legal reform impelled publication of the first casebook on Chinese business law, *Cases, Texts and Commentary*.¹⁹³ The 600-page book, written by a Hong Kong professor, illustrated how Chinese laws are interpreted and enforced by the courts and arbitral tribunals. Economic contract law, business organizations, foreign trade, intellectual property and dispute resolution were covered.¹⁹⁴ Responding to the demand for clarification of China’s business law, the Ministry of Foreign Trade and Economic Co-operation, in cooperation with the China Britain Trade Group and the Hong Kong Trade Development Council, published a guide of the new laws and financial structures in 1994, titled, *Doing Business With China*.¹⁹⁵

The growing importance of the law in China during the reform period was also reflected in the changing nature of lawyers and an increase in their numbers. The Lawyers Law of 1982 restored the legal profession but made all lawyers employees of the state, practicing in Legal Advisory Offices under the Ministry of Justice.¹⁹⁶ Beginning in 1988, independently-run lawyer cooperatives began appearing, and within a year 50 to 60 were in operation. China’s Minister of Justice Xiao Yang said in 1994 that in order to bring its law in line with international practices, China should develop more independent law offices, loosen the restrictions on these offices, and free them from government

¹⁹²Feinerman, 234.

¹⁹³Wang, Guiguo. *Cases, Texts and Commentary*. Hong Kong: Butterworths Asia, 1993.

¹⁹⁴Business Times. “First Casebook on Chinese Business Law.” 11, 1993.

¹⁹⁵Chang Weimin. “UK: Boom Book Blasts Businessmen.” *China Daily*, July 19 1994.

¹⁹⁶Feinerman, 235.

subsidies and interference. He also called for a new regulatory system, under which legal associations played the central role in legal business management, leaving the Justice Administrative Departments to conduct macro-control.¹⁹⁷ Though in 1989, there were only about 30,000 to 40,000 lawyers in all of China,¹⁹⁸ by 1994, there were more than 8,000 lawyers and 1,000 law firms in Guangdong Province alone.¹⁹⁹ An increase in court cases accompanied the increase in lawyers. Courts were so overwhelmed by the influx of new cases that during 1988 they began dividing themselves into civil, criminal, and economic chambers to handle the caseload.²⁰⁰

Evidence from interviews with private business owners also shows a larger role for lawyers. Several private entrepreneurs mentioned the benefits lawyers provided to their firms. An entrepreneur who sold construction materials consulted often with his lawyer for advice about inter-company issues as well as laws relating to state regulations.²⁰¹ A private businesswoman's lawyer to whom I spoke in Shanghai indicated that his client always consulted him before she made important decisions, to avoid losing money. Recently the demand for lawyers had greatly outstripped the supply, he said, especially in the new Pudong Special Economic Zone in Shanghai, where lawyers were needed for new real estate and economic development projects.²⁰² An entrepreneur who had practiced law earlier in his career said it gave him an advantage when dealing with government officials, "the cadres know I'm a lawyer so they don't dare do anything illegal. Sometimes I'll invite them for a free meal to improve our relationship, but only if I feel like it, and I don't give them money," he said.²⁰³ Even without lawyers, entrepreneurs' experiences showed improvement in law enforcement.

¹⁹⁷Xinhua News Agency, "China Speeds Up."

¹⁹⁸South China Morning Post. "China: Lawyers Escape the Crackdown." 1989.

¹⁹⁹Juan.

²⁰⁰Feinerman. 235.

²⁰¹Interview 28.

²⁰²Interview 15.

²⁰³Interview 49.

Invoking his legal rights, an entrepreneur in Hangzhou managed to defend his property from the predations of a state enterprise. The townhouse he had inherited from his father had been returned for his usage after being occupied by the government during the Cultural Revolution. He used the street level as a storefront, but his shop split a state-owned department store in half, which irritated the department store. They wanted to take his place, but he refused:

It's mine, the government protects me. I want to do business too. If I fail, you can have it. But if I succeed, I'll take your place.... I don't have the 'use rights', I have the ownership! It's not the Cultural Revolution. If you say you want it, I'm not just going to hand it over. They offered to rent it from me, they offered to swap me for another place, they offered to buy it, but I said no. I'm not renting, not moving, not selling.²⁰⁴

This adamant declaration of his legal protections revealed the changes he saw in his own life as well as his confidence in the new laws.

Published laws prevented corruption for the realms they covered. For example, the public availability of the tax law prevented harassment from cadres, "in Beijing, people don't ask for extra taxes, they follow the law, because there is law regarding taxes. We have a bookkeeper, so it's not a problem," said a young clothing wholesaler.²⁰⁵ Several entrepreneurs reported on the effectiveness of anti-corruption laws. The president of a medical company gave a common reply when asked if Communist Party cadres solicited bribes. She said, "no one asked me for money. I just pay people for actual work they do. No cadre ever came and asked for money."²⁰⁶ When I asked another man if he had ever bribed a cadre he replied in the negative, "if I gave them something, it would only hurt them. They would go to jail for fifteen years."²⁰⁷ Another

²⁰⁴Interview 48.

²⁰⁵Interview 59.

²⁰⁶Interview 40.

²⁰⁷Interview 17.

company president acknowledged that “some cadres steal,” but added, “most are clean.”²⁰⁸

An individual business owner in Hangzhou indicated that the higher status of private business gave them more clout in fighting corruption. He himself served on an anti-corruption government task force, as a representative of the Individual Laborer’s Association. Recently he and others reported the head of the local Public Security Bureau as corrupt. Following an investigation by the Bureau, the man was dismissed. “The rules are open to the public, so people know if the officials are breaking the law,” he said, attributing the task force’s new effectiveness to the public dissemination of the law.²⁰⁹

As the protections for private businesses became stronger, the benefits of registering as a collective company became less compelling. According to the law, the assets of a collective company were owned jointly by the workers. This fact, coupled with increasing legalism, made some investors reconsider their registration strategy. As one investor reasoned, “I am registered as collective but will change to private at the end of the year. I don’t feel comfortable investing a lot in fixed assets if it’s collective, because then the assets belong to the collective.”²¹⁰ In fact, less savvy investors had suffered by “hanging the collective plaque”. A young Beijing resident who had founded a “collective” computer company with some acquaintances found his share of the profits assailed by an acquisitive partner. When I spoke to him, he had lost his stake in the company, and vowed to become involved only in private firms in the future, where his ownership would be indisputable.²¹¹ In fact, of those I interviewed, 40% of the owners

²⁰⁸Interview 59.

²⁰⁹Interview number withheld.

²¹⁰Interview 45.

²¹¹Interview 80.

of enterprises registered as “collective” mentioned concern about the law, while only 24% of those registered as “private” did.²¹²

The legacy of the changing legal climate for private businesses is reflected in the concerns of private entrepreneurs from different generations. In general, younger owners in my sample, who started their firms in the later years of the reforms, worried less about unfavorable government actions against private businesses and their owners than did older owners (Table 3.4). Those in oldest cohort, born before 1944, exhibited the greatest concerns about law and policy; on average they started their businesses in 1984. Those in the middle cohort, born between 1947 and 1956, started their businesses in mid-1988, on average, and showed less apprehension about laws and policies. The youngest owners, born after 1956, were the least concerned; they typically started their firms in 1990.

Table 3.4: Concern for Laws and Policies By Cohort

Do your main problems include unfair laws or policies?			
	Oldest	Middle	Youngest
yes	40	19	5
no	60	81	95
N cases	10	27	20

Chi-square 5.6, DF 2, significance .05.

Though entrepreneurs of all ages faced the same current legal climate, older entrepreneurs responded to questions about their firms’ problems based on past experiences as well as the present situation.

²¹²This figure is only suggestive: only five owners of firms registered as collective were interviewed, and 42 registered as private.

These findings are supported by two larger-scale surveys of private business managers conducted in 1992 and 1994. In 1992, more than 50% of those surveyed thought policy was the most important problem facing their business. By 1994, however, only 35% of those interviewed thought policy was most important; the majority thought management was most important. Policy was still important, but was no longer a key point.²¹³

Even when they criticized the weakness of existing laws, entrepreneurs with whom I spoke were overwhelmingly optimistic about the direction the legal system was taking. “China is very big, and in a very short time things have changed a lot,” explained one man. “It’s hard for the laws to keep up. Now the government spends a lot of time changing basic laws and regulations.”²¹⁴ Even the man whose medical machines had been victimized by the laxness of the copyright laws viewed the future favorably, believing that because the private economy was good for China and the common people, the policy would continue to improve.²¹⁵ Another business founder acknowledged that “the policy isn’t perfect.” But he also emphasized that it had come a long way in a short time, “not too long ago, Chinese economy was just like the Soviet Union’s, where the government controlled everything. There will be a lot of new market laws; things have changed a lot in eight years.”²¹⁶ Likewise, when I asked an owner in his early twenties whether he was cautious about reinvesting his profits, given the legal climate, he was bullish. “All is reinvested. I bought a one-way ticket,” he responded.²¹⁷

In the late 1980s and 1990s, significant strides were made in the development of market-related legal institutions. Rule of law was foreign to the way the Communist

²¹³Surveys by Horizon Survey Corporation, Beijing. Interview with Li Zhen, senior manager.

²¹⁴Interview 38.

²¹⁵Interview 32.

²¹⁶Interview 77.

²¹⁷Interview 22.

Party had led China for fifty years, and legal institutions had to be created nearly from scratch. Despite these obstacles, three powerful reasons impelled the state to make a start. The widespread grass-roots appeals of private business owners, and the jobs and revenues their businesses provided, encouraged the development of the law. Entrepreneurs also influenced policy-making more directly. Though none of entrepreneurs I interviewed was well-placed enough to have directly influenced changes in the legal system, a study of the development of intellectual property rights legislation in the 1980s and '90s noted that private entrepreneurs were part of the faction pushing for the adoption of international standards in these laws.²¹⁸

CONCLUSION: DIFFERENCES AND SIMILARITIES IN THE DEVELOPMENT OF MARKET INSTITUTIONS

Looking at how change differed in taxation, banking, and legal institutions provides some understanding of factors influencing the development of market institutions. The extent to which a coalition of diverse supporters existed also affected the rate of institutional reform. Such a coalition existed for the creation of market-related laws. Given the same complaints from domestic private enterprises, collective and township enterprises, and foreign firms, the state was faced with a clear and specific indicator of the needed direction of change. The consistency of the message from these diverse sectors pushed reform despite the obstacles discussed above. In contrast, reform in the banking sector, though it would help township and collective enterprises, would not really benefit foreign firms. Hence their powerful voice was not added in support of change. In the case of taxation, there were no clear losers to institutional change, therefore it progressed rapidly. In contrast, banking reforms jeopardized the powerful and well-organized state enterprise managers, slowing change. Legal reform was a threat

²¹⁸Alford, 78. Unfortunately, Alford does not explain how these entrepreneurs were able to influence this process.

to the discretionary power of cadres, who therefore resisted the formation of a stronger legal environment.²¹⁹

Whether market-related institutional change had costs or benefits for the government itself influenced its development, since in no cases was the government forced by private entrepreneurs (or other actors) to enact change. In the case of taxation and legal reform, benefits were relatively high. With tax reform, in the medium term, the government stood to gain substantial tax revenues. Similarly, reform of the legal system would likely result in economic growth; in addition, it would encourage foreign investment and technology transfer, and perhaps abate corruption. On the other hand, it would result in diminished revenues to state-owned enterprises and cost China more in technology payments abroad. Benefits to banking reform were also high, but so were the costs. While reform of the banks would end an enormous drain on the central government's treasury, such reform also threatened social stability, a key concern for any ruling government. Thus bank reform had mixed implications for the state.

Though the government was never forced to implement change, change did occur without government approval, particularly without central government approval. Through deception, private business owners were able to procure market-oriented results from a system that was not market-oriented. Business owners got banks loans, paid taxes at rates which permitted reinvestment, and protected their property from confiscation. Many of the changes business owners created were later codified in national law. Thus, evolution of market institutions in China often began locally, incrementally, and illegally.

Given the local and illegal beginnings of institutional change, it is not so surprising that personal relationships often played an important role. Observers of China's reforms often emphasize the role of vertical relationships, for example, between

²¹⁹Potter, "Administrative Litigation Law," 273.

entrepreneurs and local officials.²²⁰ However, the relationships most often called on in the creation of market institutions were horizontal -- those between former co-workers or classmates, relationships between private business owners and managers in state and collective enterprise.

Competition among localities for private business was also crucial. That the development of market institutions could differ from province to province created variation in the environment for business. Because the government permitted private businesses owners to move their businesses, owners could select the environment most suited to them. This enable government officials to understand the impact of their policies on business owners: they could themselves suffer the consequences of a lack of market institutions, or reap the rewards of institutional innovation.

Finally, the alienness of the new institution to the existing political structure influenced the speed of development. Though by definition new institutions are different from existing ones, some are more different than others. Of the three institutions examined here, legal institutions were most alien because they involved a comprehensive change in how the Communist Party interacted with Chinese society. While changes in banking and taxation were for the most part changes in policy *content*, creating strong legal institutions involved a basic change in the *method* of policy, and required a new mind set for Communist Party members at all levels. For this reason, more significant changes were achieved in the laws as written than were achieved in the laws as enforced.

Undergirding these many factors influencing the rate of institutional development were two characteristics of the polity and the private enterprises that were crucial to any institutional development. First, the private enterprises were, on the whole, wealth-

²²⁰Wank, David L. "Private Business, Bureaucracy, and Political Alliance in a Chinese City." *Australian Journal of Chinese Affairs* (33 1995): 55-71, pp. 65, 67-9; Solinger, Dorothy J. "Urban Entrepreneurs and the State: The Merger of State and Society." In *State and Society in China: The Consequences of Reform*, ed. Arthur Lewis Rosenbaum. 121-141. Boulder, CO: Westview Press, 1992. 123-4.

producing, not merely channeling resources from state sector. If the private sector had been predominantly redistributive rather than productive, the economy would have been zero-sum, and local officials and the central government would have had no incentive to aid the development of the private sector. Furthermore, private businesses would not have been interested in the development of market-related institutions had they been profiting from the absence of a market.

Second, the Chinese polity was competent in a basic sense: it was capable of forming and implementing policy. Government officials acted as though concerned with the welfare of their communities and with economic development, and were not exclusively engaged in rent-seeking or predation. At the same time, though, it was extremely helpful that there was sufficient "space" in the polity to permit unofficial or illegal solutions.

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CHAPTER FOUR: COMMUNIST PARTY IDEOLOGY AND THE POLITICAL BELIEFS OF PRIVATE ENTREPRENEURS

INTRODUCTION

In the last chapter I discussed very concrete ways in which private businesses and their owners were interacting with the state: how they influenced institutions important to the economic survival of their firms. In this chapter, I take a look at entrepreneurs' interactions with the state on a more abstract level. I document entrepreneurs' political beliefs on a range of topics. Given that the Communist Party seeks to dictate what entrepreneurs think about politics, the chapter examines why entrepreneurs have rejected some components of state ideology while accepting others. I also discuss the impact of the private sector on Party ideology.

The political beliefs of entrepreneurs are important as an indicator of their likely future political behavior. They are an indicator of likely points of conflict between the Communist Party and the private sector; they signal in which issue areas the Communist Party will assert its rule with ease, and in which areas it will likely encounter resistance (some of these areas of resistance I have documented in Chapter Three). The political beliefs of entrepreneurs are also important because historically the Communist Chinese state has been an ideological state; more than many other authoritarian governments it has an official ideology which it intends the population to believe. Given the seemingly intrinsically antagonistic nature of a private sector in a socialist state, one naturally wonders whether the Communist Party is managing to finesse these ideological contradictions, or is suffering some consequences.

The Communist Party has always sought to dictate the ideological stance of the Chinese state and to inculcate the Chinese population with that ideology through formal schooling, work unit- and village-based political education, and mass propaganda. In this

chapter I first contend that the Party failed to convince private business owners of its ideological stance with regard to the private sector and the role of private business owners in Chinese society. Further, I argue that the flourishing private sector wreaked ideological havoc within the Communist Party, leading the Party into clearly contradictory or apocryphal rhetoric and general ideological confusion.

Next, I examine the Party's attempts to maintain its own prestige and legitimacy as sole ruler. Though some China scholars have assumed that private business owners support the Communist Party because they have become wealthy under Communist rule, no studies have systematically examined entrepreneurs' political beliefs.¹ This chapter shows that, at best, private business owners see the Party as legitimate insofar as it maintains social order and fosters economic growth. At worst, business owners reject Party rule and predict that the Party will either undergo profound transformation -- ceasing to be a communist party -- or be ousted from power.

In the final section of the chapter, I look at entrepreneurs' beliefs about human rights. Though private business owners do not accept many of the Party's pronouncements, in general, they follow the "Party line" regarding human rights. They tend to view free speech, the right to assemble, and the right to protest against the government as socially destabilizing. Rather than seeing these rights as strengthening the polity, they view them as weakening it. Thus, their strong skepticism toward the Communist Party does not translate into support of any opponents or critics of it. They are as wary of political chaos as they are of Communist Party corruption and incompetence.

¹Lucian Pye, personal communication. Nevitt also assumes entrepreneurs' political attitudes are tightly connected to their short-term business calculations. See fn 119 below. (Nevitt, Christopher Earle. "Private Business Associations in China: Evidence of Civil Society or Local State Power?" *The China Journal* 36 (July 1996): 25-43.)

Because of the failure of the Communist Party's attempts to develop a coherent ideological place for private business owners within the socialist state and to persuade business owners to accept that place, and the weakening ability of the Party to maintain its own prestige and legitimacy, the Party's ability to use either coercion or persuasion to elicit the political compliance of private business owners is in jeopardy. Therefore, should the Party misstep in the future -- through policy decisions which result in serious social unrest, halt or reverse economic growth, or directly threaten private businesses, private business owners are likely to stop supporting the Party entirely and may defect to an opposition. Entrepreneurs' views of human rights indicate that this opposition is likely to be more attractive if its actions take place through official channels, or in palace-coup style rather than through mass demonstrations on the streets.

ESTABLISHING AND INCULCATING IDEOLOGY

A historically powerful tool in the Communist Party's dominance of Chinese society has been its ability to formulate the ideology of the state and inculcate the Chinese population with this ideology. This tool of Party dominance was showing signs of weakening with the emergence and growth of the private sector in the 1980s and 1990s. In this section, I use "ideology" to refer to the Communist Party's practice of establishing national goals for China and dictating the role of each citizen in fulfilling those goals. During the course of its rule, the Party has established a series of national agendas for China: to oust the Japanese in the 1940s, to establish socialism in the 1950s, to remake the revolution in the 1960s, and to pursue the Four Modernizations in the 1970s and 1980s. In each of these periods, Party leadership maintained a state ideology which told citizens who they were, what their relationship to one other was, and what their role in achieving the national goals was. Taken together, this ideology gave each Chinese a place in society and established their relative worth as citizens.

Though national goals changed over the years, the basic Maoist scheme which dictated the place of citizens in society was fixed relatively early on. After the victory against the Nationalists, the Party set up a social hierarchy based on Marxist-Leninist-Maoist theory, which it used to carry out land reform. Though the importance of this hierarchy varied over the decades as the national goals shifted, it nonetheless remained the basis for defining the societal roles of Chinese from that period onward. This Communist Party doctrine divided the Chinese population into good and bad categories. People in good, or “red” categories, included workers, poor peasants, revolutionary soldiers and martyrs, and Communist Party cadres and their descendants. People in bad, or “black” categories, included capitalists, landlords, rich peasants, Nationalist soldiers and Nationalist Party members and their descendants. Citizens belonging to good categories were considered morally superior, were accorded respect, and were seen as society’s natural leaders. In contrast, Chinese belonging to bad categories were considered morally tainted, were scorned and abused, and were seen as undermining the social order. According to this scheme, Party ideology has historically placed private business owners at the lowest rung of society and labeled them as potential enemies of national objectives. Since the death of Mao, these categories have faded in importance, but the strong stigma against capitalists has lingered.

At the outset of the reform period, the Party ideology labeled private business owners as exploiters, labeled their businesses as exploitative, and saw their role in the national goal of raising living standards and achieving a “modern” society as insignificant, peripheral, or, at best “supplemental.” A typical example of the negative role the Party cast for private business owners can be seen in a 1989 article in a national Party newspaper. In it, the author calls upon workers to oppose privatization by refusing to work for private firms. He impugns the morality of private entrepreneurs to the point of characterizing them as slave-owners, asking why any worker would choose to work for

a private firm: “The majority of China’s workers work for state-owned enterprises in which they are the owners of the enterprise and of the goods produced. Who wants to give up the goods they produce themselves to individual capitalists and willingly work as the latter’s hired hands or slave?” In conclusion, he assails the impact of private businesses on Chinese society by reiterating the Marxist assertion that competitive capitalist economies inevitably produce massive unemployment; he calls the state-owned enterprise system a bulwark against this potential social disaster.²

As I will show below, the personal experiences and attitudes of private business owners conflicted with this Party dogma in three main ways. First, though the Party viewed them as inferior to other Chinese, they viewed themselves as superior. Second, though the Communist Party insisted on valuing the state-owned economy more highly, they saw their businesses as having the more positive impact on Chinese society. Third, though Party propaganda continued to insist that state enterprises would always dominate, they believed the private sector was gaining an increasing share of the Chinese economy. Thus in three basic ways their perceptions about themselves, their businesses, and their place in society differed from official Party assessments.

There were two implications of this schism between Party ideology and the reality the entrepreneurs perceived. Party ideology gradually tried to come to grips with a reality that defied it. During the early ’90s, the positive contributions of private business owners to China’s economic growth and social welfare became more evident to Party officials. Encouraging and supporting the private economy became more important, and the Party struggled to find ways to justify a more positive stance toward private business owners. This attempt is significant in that it shows that rather than using theoretical constructs to define social reality, as the Communist Party did for most of its history,³ social reality

²Ma Zemin. “The working class as a political force against privatization.” *Guangming Ribao*, 2 November 1989.

³In particular during land reform and during the Cultural Revolution.

began to define ideological constructs. Though the Party sought to define private business owners negatively and their role as insignificant, the real contributions of private business to China forced the Party to reconsider its assessment and reformulate its ideological stance toward business owners. In essence, this demonstrates a strengthening of society -- at least one element of society -- vis-a-vis the state. In addition to attesting to the growing power of business owners, the Party's attempts to reconcile communist theory with a positive view toward capitalists also produced some very odd rhetoric. Many entrepreneurs found this rhetoric hard to believe, and one can hypothesize that other Chinese also found it difficult to believe. Thus the desire to benefit from the positive contributions of the private sector forced the Communist Party to undermine one of its most powerful governing tools: a coherent ideology.

To understand the roots of entrepreneurs' beliefs about their place as private business owners in Chinese society, one must understand how private business owners viewed the societal norm with which they were compared: the state enterprise system. Entrepreneurs' beliefs about the state- and collective- sectors were based primarily on their own work experience. In the next several pages, I review the microeconomic functioning of the state enterprise system, and entrepreneurs' experiences as workers and managers in it. Next, given the context of this state enterprise system, I consider the three ways in which entrepreneurs' view of themselves, their businesses, and their future prospects differed from Party ideology. Finally, I discuss the implications of this difference for entrepreneurs themselves and for the Party's ability to establish and inculcate Chinese citizens with its ideology.

The main features of the Maoist economy were publicly owned industry, a strategy of rapid growth in heavy industry, a passive banking system, central planning and resource allocation, and fixed prices. The plan worked by tracking and allocating

materials and setting prices for them. The most important goods were tracked, allocated, and priced at the national level, while the less important goods were managed at lower administrative levels. Prices were set to allow most manufacturers to make a profit, with local governments allowed to set “temporary” higher prices for high cost local producers. When they made a profit, state owned enterprises were required to hand it over to the government, and were not allowed to retain any of it for bonus payments or discretionary investments. The government relied on these payments as its primary source of revenue.

From 1950 to 1978, industrial production grew; but it grew because of massive investment and despite massive declines in productivity. In the 1970s the industrial system broke down from a combination of Mao’s attacks on the planning bureaucracy, factional infighting during the Cultural Revolution, and the lack of fiscal responsibility at the enterprise and local governmental level. These factors led to inefficient and illogical over-investment with a lack of central control. A reform of this system was begun in 1977, by Deng Xiaoping’s government.⁴

The reforms begun in 1977 attempted to change incentives at two levels: for the firm as a whole, and for workers. To increase incentives to the firm, the government gradually replaced its policy of appropriating all profits with one in which profits were taxed but the firm was allowed to keep the remaining funds. The state also sought to motivate workers by implementing an incentive system based on production quotas. After a decade of reform, though, neither of these reforms had produced the intended results.

Despite the state’s attempts to improve the performance of enterprises by increasing labor productivity, enterprise managers looked for other ways to improve performance. During the 1950s, ’60s and ’70s, acute shortages of materials, parts, and

⁴See Wong, Christine P. W., Christopher Heady, and Wing T. Woo, ed. *Fiscal management and economic reform in the People’s Republic of China*. New York: Oxford University Press for the Asian Development Bank, 1995, for an overview of the Maoist industrial system.

fuel meant that managers' efforts had been primarily focused on two tasks: getting and keeping these scarce production inputs, and convincing the state to keep their production quotas low. Managers became adept at hoarding inputs and hiding excess production capacity. When industrial reforms were implemented, managers again looked to getting the best out of the situation by manipulating their relationship with the state.⁵

The new policy of permitting firms to retain after-tax profits did not redirect managers' efforts toward improving labor productivity. Their focus instead continued to be on negotiations with the government. The reforms had merely changed the substance of negotiations to tax rates, prices of inputs and outputs, and credit. Managers negotiated with industrial bureaus and government agencies to determine how much capital their enterprise got in loans, the size of tax breaks, the number and amount of subsidies, and percentage of production that could be sold at high market prices rather than low plan prices. Enough leeway existed in these areas that worker effort was not important in determining the success of the enterprise.⁶

Similarly, the attempt to link wages to productivity and to the profitability of the firm did not result in higher labor productivity. The government tried to implement production quotas to tie bonuses to productivity. Perversely, quotas did not lead to tighter links between bonuses and productivity; instead, workers and managers haggled over how the quotas were set and which workers got easier jobs. Rather than improving productivity, workers reacted to production quotas by making poorer quality goods, hoarding tools, and storing up completed parts when quotas were low. Highly productive workers were increasingly attacked by their peers under the new system.⁷

⁵Walder, Andrew G. "Wage Reform and the Web of Factory Interests." *China Quarterly* 109 (1987): 22-41, 32.

⁶*Ibid.*, 32, 36.

⁷*Ibid.*, 28-29.

The managers who were expected to implement these quota-based incentives had no experience with such systems. Managers also lacked information crucial to devising an incentive system -- there were no figures on individual or group productivity. Aside from these formidable administrative problems, the quota system had an inherent incompatibility with the existing industrial infrastructure: because the state-owned enterprises had poor inventory and distribution systems, even workers willing to fulfill a quota might lack needed inputs.⁸ Shop directors therefore chose to avoid confrontation by awarding bonuses equally or rotating them monthly. Bonuses earmarked for the best workers were instead rotated among all the workers.⁹

From 1978 to 1984, while wages rose 5.2% per year, the value of output per worker rose only 4% per year. Labor productivity thus actually declined in terms of labor costs during this period.¹⁰

The cumulative effect of the structure of work in state enterprises made employment there unbearable for highly motivated individuals. The bureaucratic manipulation required by the external environment did not translate to internal goals. The lack of externally-imposed standards meant that internal standards did not exist either. What little work employees were assigned was done intermittently and poorly. Workers were not promoted based on merit. Talented managers were not allowed to implement their ideas. Decisions were made through ponderous negotiations involving the entire top management as well as officials in supervisory organizations. Jobs both on the shop floor and in the supervisory offices were tedious. Co-workers lacked motivation, while bosses stymied subordinates for petty personal reasons.

Boredom and frustration drove Chinese to abandon this system. A man who quit his job to start his own company in 1985 was disgusted with his life in the state

⁸Ibid., 29-33.

⁹Ibid., 33-35.

¹⁰Ibid., 25-26.

enterprise. “When I worked in my old job, every day they made me waste time. It was boring. I wanted to have an abundant life, do lots of interesting things. In the state enterprise, there was nothing to do, and there were lots of people to do it,” he said.¹¹ According to the *Beijing Review*, in 1988 one-third of state workers were redundant: twenty million people in the state enterprises had no work to do.¹² Among the entrepreneurs I spoke with, six of the top nine reasons given for starting a business related to dissatisfaction with their old jobs (Table 4.1).¹³

Table 4.1 Top Nine Reasons Mentioned for Starting a Business (%)

To demonstrate or use my talents	60
To make money / Because the financial risk was low	38
To be more independent or free / To be boss / Not to be interfered with	26
My old job was boring / To do something I liked	21
A good opportunity arose	14
To help people by providing a better service or product	14
My old job was frustrating because of the mind set of the people	10
The state enterprise was not suited to the market / had no hope	10
I didn't get along with my boss	10

Note: Total exceeds 100% because respondents gave more than one answer

Entrepreneurs felt they were being underutilized in their existing jobs and started new companies to engage their abilities and to challenge themselves. Factory workers without the patience to work their way from the shop floor to management saw opening

¹¹Interview 70.

¹²Beijing Review, no. 51, 1988, 17-21, cited in Wong, Heady, and Woo.

¹³In interviews with individual business owners conducted in the 1980s, Gold finds essentially the same group of reasons for starting businesses: money, freedom from the work unit, bringing one's talents into play, entering an ongoing family business, creating social wealth and contributing to society, and employment Gold, Thomas B. "Guerrilla Interviewing Among the Getihu." In *Unofficial China: Popular Culture and Thought in the People's Republic*, ed. Perry Link, Richard Madsen, and Paul G. Pickowicz. Boulder, CO: Westview Press, 1989, 184-5.

their own business as an instant promotion to a more difficult, more stimulating job. A thirty-three year old former factory worker, who had left his job nine years earlier, by 1994 managed an enterprise with 50 employees and ten million yuan (1.1 M USD) in capital.¹⁴ "I had my own ability, and I wanted to use it, develop it. If I worked in a factory, I could only be a worker, but I have more energy and creativity than used in being a worker," he said.¹⁵ Another entrepreneur's comments also reflect the urge to use his talents and be more productive. "I didn't want to theorize about things, I wanted to do," he said.¹⁶

Former white-collar workers in the state enterprises were just as unhappy as shop floor workers. Tiers of phlegmatic management stultified even the most eager employee. The ethic of extreme egalitarianism that pervaded the state enterprises meant that anyone who worked harder or smarter than the shoddy average was mistrusted by peers. The following comments come from a seasoned manager who decided to leave the corporate ladder at age forty-five:

I went to work for a big company after graduating from college, but sometimes at a big company, if you work hard, you can't make a name for yourself. In fact, many people think you are bad and are jealous of you. In a big company, even if you are mid-level management, you have to ask permission from higher levels to make decisions, even if you think you can do it yourself.¹⁷

Upper level managers and the attitudes of co-workers placed restrictions on how business could be conducted in the state-owned enterprise. As the 1980s progressed, the market economy developing in China demanded new behavior in the firm. Thus would-be innovators found their inability to create change even more frustrating. Concepts integral to market management were alien to many managers, and the microeconomic behavior needed for success in the emerging market economy was inimical to the

¹⁴An exchange rate of 8.5 yuan per USD is used throughout.

¹⁵Interview 38.

¹⁶Interview 57.

¹⁷Interview 45.

egalitarianism of the state firm. Market-oriented management behavior was thought to reflect base motives, and fellow managers viewed with suspicion anyone who suggested such changes. Explained one entrepreneurial manager:

If I took a foreign customer out for dinner, people criticized me, saying I just wanted to go out to a lavish meal myself. This was aggravating. If I sold a product for a higher price in order to get better profits, people thought I was paying kickbacks to the buyer, when I was just trying to increase the profit of the enterprise. It was frustrating also not to be able to reward people who were working well. Private business is better for talented people.¹⁸

Because of the rigidity of the state enterprises, some workers felt themselves fundamentally at odds with the environment. “When the policy opened in 1983, and we were permitted to start a business, I wanted to give it a try. I wrote a two sentence retirement report to my work unit: ‘I am unfit for state-owned enterprises. I want to leave the company,’”¹⁹ said one businessman. Young people in particular reported feeling stifled in the state enterprise. A engineer described himself and his partner as “very unhappy” in their state sector jobs. “We wanted to develop according to our ideals, but the leader’s conception of the company was really bad. We felt that since we’re young, we should go out and try our own thing. Also, we were poor,” he said.²⁰

Unchallenging work was not limited to state enterprises, but was a feature of organizations run by the Communist Party as well. Party cadres, who had the highest status and presumably most interesting jobs, reported frustration with their existing job as the foremost reason for starting a business. One woman I interviewed ‘retired’ from the Foreign Affairs Bureau in 1985, still early in the reform period. “I didn’t want to work in an office any more. I wanted to see what my capabilities really were. And I wanted to see what good I could do,” she said.²¹

¹⁸Interview 30.

¹⁹Interview 51.

²⁰Interview 68.

²¹Interview 69.

Though depending on their own skills for the first time in their lives was a thrill for younger entrepreneurs, for some older entrepreneurs, risk in itself was a bit frightening. But for these older people who had labored in state enterprises for decades, starting a business offered them a chance to change their lives while they still could. “I didn’t want to continue working for the state enterprise, I’d already been there for more than twenty years. There was risk involved, because I had the iron rice bowl, but young people shouldn’t be conservative and do traditional work, they should get out and try their own thing,”²² explained a man in his forties.

Because productivity was not valued in the state enterprises, talented, conscientious workers were not promoted ahead of their peers. Instead, a worker’s treatment was determined heavily by interpersonal alliances. “In state firms, personal relationships are complicated. For example, people are not promoted according to their ability, but rather based on relationships. A very skilled person can easily not get promoted, while an unskilled person will be promoted. You can’t depend on your own ability,” explained a entrepreneur in Beijing.²³ This extreme personalization of labor relations and its inherent unfairness was troubling to many former state-enterprise employees.

Since people were not allowed to change jobs in the state enterprise system, conflicts with superiors could be devastating. Several entrepreneurs cited personal problems with their former bosses as being key to their decision to quit. Even in a job as seemingly autonomous as a newspaper reporter, petty office politics predominated.²⁴ “In the newspaper, there were many layers of management, and each layer managed you. It isn’t systematic management, it’s based on personal relations; if you don’t get along with

²²Interview 66.

²³Interview 67.

²⁴Here I do not mean to imply that one would expect newspaper reporters to be politically autonomous, only that a newspaper might be *relatively* horizontally organized.

the person, they won't let you do anything," explained a former reporter.²⁵ Though personal relations play a role in companies in all parts of the world, in competitive economies, firms incapable of promoting skilled workers cannot survive. In contrast, such behavior in China's state enterprises was not constrained by the need to compete with other firms.

Furthermore, the rigidity of the existing Chinese employment system meant that people with career preferences generally could not fulfill them. Private business provided the only venue for impassioned Chinese to pursue their professional aspirations.²⁶ One woman's company allowed her to pursue her interest in medicine, despite the break in her education caused by the Cultural Revolution:

I had always wanted to be a doctor, but because I was sent down, I missed my chance at higher education. While I was in the countryside, I studied Chinese medicine. I felt there was no chance I would ever become a doctor because I lacked the certificate, so I thought I'd pursue my interest by starting a company that manufactures health equipment based on the principles of Chinese medicine.²⁷

The business she founded designs and manufactures products based on Chinese medicine, including magnetic combs, bedspreads and pillows, weight-loss machines, and belts for back pain.

A man in Hangzhou also wanted to start his dream business -- a training gym for boxers. As he explained, "I wanted to do my own thing; I like freedom. I've always loved boxing, since high school -- I trained myself by imitating other boxers. I hope China's fighters can be as good as America's, because America's are the best. Ali! Ali! [*he chants*]." He was able to pursue this interest even though his company made little money.²⁸

²⁵Interview 71

²⁶Interviews 72, 56.

²⁷Interview 24.

²⁸Interview 55.

Some people without a driving passion started their own businesses just to feel more useful, to feel as though they were contributing something to their communities.²⁹

A doctor in Shanghai who had developed special treatments started an individual business to popularize his curative techniques, despite the social stigma of being in business for himself.

I wanted to be able to help more people than just the ten patients I saw each day. I had developed some really good products, and I wanted them to be used more widely. I did not become a businessman for the money. At that time, individual businesses were not well respected, and I didn't tell people I had started such a business.³⁰

Like the boxing trainer, he acknowledged that his business brought in little profit.

For business founders and their employees, private businesses were an opportunity to escape the petty, hateful, and embittering work in the state enterprise. In this way, private firms contributed to the growth of personal freedom in China, which is a form of political liberalization.

Given these experiences in state enterprises, it is not surprising that entrepreneurs' views of themselves, their businesses, and their future prospects differed from Party ideology. In my interviews with entrepreneurs, I asked them how business owners differed from average Chinese.³¹ In general, they characterized their lives as more difficult but more rewarding than the lives of typical Chinese. The most often cited difference was that they worked harder and were more tired. As a middle-aged man

²⁹Interview 43.

³⁰Interview 29.

³¹The term I used was "*putong*" or "*yiban de*". Gold, "Guerrilla Interviewing," notes a change in the self-perception of individual entrepreneurs from the early 1980s to the late 1980s. In early '80s, the *getihu* had low self-esteem. But by the late 1980s, *getihu* viewed state enterprise workers with contempt for their "low wages, political toadying, lack of control over their own lives, and absence of entrepreneurial gumption" Gold concludes that this scornful attitude was partly defensive, but also truthful, 185. The attitudes of private business owners reported in this chapter echo these themes, but with even more vehemence. Business owners with whom I spoke in the mid-1990s did not seem defensive; rather, they were as a group extremely self-confident. This can be attributed to the further strengthening of their social position over time, and to the fact that I interviewed owners of larger businesses, rather than individual businesses.

reported, running a private business had aged him, "I am more tired. I'm very tired," he said, "my hair has gotten white."³² A restaurant owner made a stronger statement, listing fatigue as the main problem in her business, describing her work as "exhausting -- I have to buy the food, choose the dishes, and supervise the staff."³³ Another restaurant owner concurred, commenting that state enterprise workers had an iron rice bowl, whereas for him, "if business is bad, I don't eat. In the restaurant business, owners are especially tired because we have no time to rest. I don't get any Sundays off, and I have no opportunity to eat with my family."³⁴ When I asked the founder of a software company how most of his friends were employed, he was laconic, replying, "I don't have many friends. I'm busy."³⁵

Many entrepreneurs compared their current work lives with those of their friends in state firms. "In comparison with people still at state enterprises, private owners are more diligent. People in state enterprises are much lazier. Private businessmen are much busier. We have no time to play during the year,"³⁶ said a business owner from Hangzhou. A woman whose friends held staff positions in state-owned enterprises described their lives in this way: "they earn little, but they do little." She recalled her own days in the state-run economy, "then, I worked four hours a week. I had a lot of time to do reading at home, and I did some odd jobs in my spare time. Now I'm very busy. I work every day till 6 PM."³⁷ People felt state enterprise workers enjoyed themselves more, commenting that private business managers had "less entertainment" than state enterprise managers.³⁸ A furniture manufacturer felt he was no different from average

³²Interview 55.

³³Interview 37.

³⁴Interview 49.

³⁵Interview 31.

³⁶Interview 45.

³⁷Interview 72.

³⁸Interview 25.

Chinese, but acknowledged being “very busy.” “I don’t have time to enjoy things.” he conceded.³⁹

In addition to working harder, entrepreneurs felt they took more risks and had more responsibility than others. While their friends who worked in the state or collective sector had little chance of losing their jobs, they themselves relied on the success of their business for their livelihood. Furthermore, because of over-staffing, most state enterprise managers had little decision-making authority and attendant responsibility. In contrast, private enterprise owners typically made all important decisions themselves.⁴⁰ Because of these increased responsibilities, business owners felt their lives were more satisfying. The risk and reward of private business was captured by the popular phrase for entering the market economy -- “jumping into the sea,” which implied an experience that would be cold, wet, and dangerous, but more exciting.

A small manufacturer I spoke to cautioned would-be entrepreneurs about the multitude of obligations. “If people want to run a private business, they have to be willing to deal with production problems, quality problems, and relations with customers. They won’t be able to relax, and will have to put all their time into the business.”⁴¹ An ambitious young man explained that since private business owners “look at both small and big issues” they tended to sleep little. He compared this behavior with that of managers at state enterprises who were not responsible for their company’s performance, who therefore “didn’t care” if the business failed.⁴² “Regular people have pleasure on their minds more, whereas business owners assume more risk in their lives,” explained a successful businessman. “If I were the leader of a state enterprise, I’d have nothing to

³⁹Interview 70.

⁴⁰Entrepreneurs without managerial experience tended not to delegate responsibility well. This was becoming a problem in some of the firms I visited.

⁴¹Interview 27.

⁴²Interview 25.

worry about, but as the leader of a private firm, I have to worry about every aspect of the company,” he reflected.⁴³

For business owners who were not succeeding, the pressure was considerable. As one manager put it, “if we fail, we have no other options.”⁴⁴ Because the stress of running a business was substantial, entrepreneurs were occasionally resentful of those not in the private sector. “I feel I have taken on a burden,” said a restaurant owner. “Many people are watching to see how I am doing, whether my company does well or not. Lots of people could run their own restaurant or shop, but they are afraid to fail. They want to look at me as an example of what to do or not do. I feel people are watching,” he said.⁴⁵

Other entrepreneurs acknowledged that though they were overworked, they were more fulfilled. “Our lives are more interesting. Life has much more meaning for us. And our lifestyle is better,”⁴⁶ said an older woman. An engineer also saw the tradeoff as worthwhile. “We are more tired,” he admitted, “but also, we control our lives more. Our hearts are more content because of this.”⁴⁷ A young woman perceived that the added responsibility that entrepreneurs bore let them be more creative. “We are more free to do what we want,” she said; “we can develop our own ideas.”⁴⁸

Entrepreneurs I spoke with saw differences between themselves as a group and average Chinese not just in the attributes of their work lives, but also in their personal character. Because business owners chose to enter a riskier environment, they saw themselves as risk-takers by nature. A woman in Beijing noted that “typically, people like to rely on the government. It’s not that most people aren’t independent, it’s just that they’re more comfortable relying on the government.” Entrepreneurs were an exception

⁴³Interview 28.

⁴⁴Interview 75.

⁴⁵Interview number withheld.

⁴⁶Interview 69.

⁴⁷Interview 68.

⁴⁸Interview 45.

to this pattern, she felt. When I asked a young man about his friends who kept their jobs at state firms, he explained the choice as a reflection of their personalities, “no one is opposed to starting their own business, it’s just that it’s risky and some people are more conservative. Some state companies give good pay and good housing, and a stable life. Whereas, if you start a business and it fails, you could have a problem.”⁴⁹ Another man characterized entrepreneurs as having a “willingness to change their situation.” Many entrepreneurs chose to leave good jobs to start their own companies because they wanted the challenge, he observed. He had recently realized what made private entrepreneurs distinct. “I was at a meeting of Beijing private owners the other day -- they have one once a month. And I realized that they’re gamblers. They like risk. They’ll dare to do things. It’s a good thing,” he boasted.⁵⁰

Entrepreneurs contrasted the relative caution of workers in state firms with their own courageousness; “compared to them, we private entrepreneurs dare to speak and dare to do,” proclaimed one man.⁵¹ Private business owners saw the risk-taking nature of entrepreneurs as reflecting a general boldness in their personality. A Beijing man credited his ability to raise capital to the perception among his friends that he was daring. “People said that I wasn’t afraid to resign from the state enterprise, so they gave me their money.”⁵² A well-spoken man in his forties elaborated on this boldness. “Private entrepreneurs dare to speak. They are not conservative like others. What others don’t dare to do, they do; what others don’t dare to think, they think; the road others don’t dare to walk, they walk,” he asserted.⁵³ An entrepreneur who was the only manufacturer of a particular airplane technology in China saw his own adventurousness as integral to his business strategy. “I like to do things that others haven’t done,” he said. “These types of

⁴⁹Interview 33.

⁵⁰Interview 67.

⁵¹Interview 77.

⁵²Interview 70.

⁵³Interview 64.

products are not easy to make. If you manufacture for airplanes, you can manufacture lots of other things. People will believe that you have the capability to do a lot." He generalized his own approach to private entrepreneurs as a group. "Things other people don't dare to do, we do. What other people dare to do, we don't do. This is how to make money."⁵⁴

A few people also mentioned other positive attributes of private business owners -- that they were smarter or more independent-minded than average Chinese.⁵⁵ One man described his peers immodestly as "people of action" who "see far and think deeply."⁵⁶ Another said simply "they have more brains."⁵⁷ An engineer in his thirties felt that business owners had "a greater desire to succeed" than other Chinese, and that their character was "stronger."⁵⁸ A private consultant encapsulated several of these attitudes with a catalogue of entrepreneurs' body parts. "They have bigger guts. Bigger brains -- they are smarter. Bigger eyes -- they see more broadly and further than other people. Normal people are short-sighted. Bigger ears -- they listen and hear news from everywhere, a bit in this ear, a bit in that ear. Bigger mouth -- they can speak and do things as well," he crowed.⁵⁹

In sum, business owners saw their lifestyles as worthier than those of non-entrepreneurs. Many entrepreneurs also felt they had a few more laudable personal traits as well. These perceived superiorities, coupled with the conviction that their lives were more difficult than most Chinese, led them to find the state's propaganda against them especially galling.

⁵⁴Interview number withheld.

⁵⁵Interview 63.

⁵⁶Interview 73.

⁵⁷Interview 49.

⁵⁸Interview 24.

⁵⁹Interview 64.

In addition to thinking they themselves were better than average Chinese, owners also believed their businesses had a positive impact on Chinese society. The most straightforward and concrete contribution entrepreneurs felt their firms made to Chinese society was in providing jobs. Entrepreneurs, like other Chinese, were well aware that unemployment and underemployment made starvation an ongoing problem in China. Market-oriented reforms had also threatened existing jobs in the state sector. Some state enterprises needed to shed excess workers to try to stay afloat. Other state firms could not pay the workers they had, or could only pay them minimal sums.

Owners saw their companies as addressing the issue of chronic underemployment in China, and often equated jobs with food in my conversations with them. Thus they saw themselves as literally feeding China's hungry. "In the state enterprises losing money, people don't have enough to eat -- they can't pay their workers. This problem of people not having enough food to eat is being resolved by private businesses," said one owner I interviewed.⁶⁰ A former Communist Party cadre explained to me, somewhat defensively, why he believed he contributed more to Chinese society as a private entrepreneur than he had as a Party cadre. "We provide employment, and resolve the eating issue for 220 workers," he stated.⁶¹ A restaurant owner recounted the situation of one of his employees from a neighboring rural area. "She's worked for me for four years, and she's able to send money back, feed her children, and go home with clothing and other gifts. This way the private economy helps everyone."⁶² By providing employment, he asserted, the private economy was lessening the suffering caused by China's overpopulation.

The comparable lack of public support the private sector received enhanced entrepreneurs' sense that they were contributing, as opposed to taking, from Chinese

⁶⁰Interview 65.

⁶¹Interview 75.

⁶²Interview 44.

society. A restaurateur in Beijing turned the lack of government support for the private sector into a public-service act on the part of entrepreneurs. "Private owners could ask for a lot of things from the government, but we need to worry about the nation's welfare, not just our own. We must concern ourselves with the many people in China who don't have enough to eat," he said.⁶³ Another man echoed the sentiment, saying that entrepreneurs were having a big influence in changing China, in many aspects. "We don't take government money, but we employ people, build new buildings where there were small decrepit ones before," he contended.⁶⁴

Business owners believed the increased wealth and employment the private economy provided contributed to social stability in China. In general, people linked poverty to social instability. The poor performance of state-owned companies threatened stability by jeopardizing workers' livelihoods. "If the state firms are not managed well, the living standard of their employees drops, and people working there have complaints and resentments, and this is unstable," contended one manufacturer.⁶⁵ Another felt that state enterprises contributed to corruption and bureaucratism in China. He perceived the private economy to be so crucial to China's future that he asserted "without private enterprises, China is lost."⁶⁶ Even the press occasionally acknowledged the role of private business in this regard. "The development of the individual and private economy increases government income, improves the economic results, expands employment, and safeguards social stability," pronounced one report.⁶⁷ Moreover, by providing outlets for

⁶³Interview 77.

⁶⁴Interview 49.

⁶⁵Interview 46.

⁶⁶Interview 56.

⁶⁷Wang Xiangjie, Liu Juliang, Shang Guosheng, Ye Xumin, and Ye Shengsong. "You Yige Yijuntuqi -- Dui Fuyin Geti Siying Jingji de Diaocha (Another force comes to the fore -- Investigation of the individual and private economy of Fuyin)." Unpublished Hangzhou Government Report (Zhonggong Hangzhou Shiwei Bangongting), 1993.

people to “satisfy their desire to develop their natural talents,” private firms increased people’s contentment, according to another entrepreneur.⁶⁸

Business owners also felt that jobs at private firms were more stimulating than those at state-run companies. A woman who ran a graphic design firm speculated that her company’s competitive advantage grew out of this work environment. “People in state enterprises just have ordinary work environments and ordinary salaries; they don’t develop their potential, and can’t do innovative work,” she argued.⁶⁹ In providing more fulfilling jobs, she felt private businesses were having a substantial positive impact on people’s lives. A Hangzhou entrepreneur affirmed that the more challenging jobs in private firms allowed people to develop their capabilities.⁷⁰ “Private firms give society a lot of energy,” explained another business founder. “Before 1985 I did nothing at work, and then after work I played cards. Now I’m very busy. Private entrepreneurs strive. This is very important and has caused a lot of China’s development,” he said. Even managers at state firms retained their jobs because they relished the social status of their position, not because they enjoyed their work, in the view of one high tech entrepreneur from Beijing.⁷¹

Aside from providing a more challenging atmosphere, private firms gave some people a choice of jobs for the first time in their lives. For more skilled or educated workers, who had always had to accept often arbitrary postings by the government, the existence of private firms meant they could choose a more suitable profession. A Beijing woman who established and taught in a private school declared that she had found her *métier*. “I think of myself as a successful teacher. I’m better now than when I was at my

⁶⁸Interview 22.

⁶⁹Interview number withheld.

⁷⁰Interview 31.

⁷¹Interview 75.

old job. Then, I just did what I was supposed to do. I didn't do what I really wanted to do."⁷²

Some business owners also mentioned that their firms benefited society by providing better products and services than had been available before the emergence of the private economy. Appropriating a phrase from the Cultural Revolution, a manufacturer of frozen foods said the superior decision-making structure in his firm meant that "in contrast to state-owned enterprises, my company really 'serves the people'."⁷³ Several entrepreneurs mentioned that the superior product they delivered forced their competitors in the state economy to improve. This was particularly the case in the service sector, where service at state firms had been abysmal, and consumers could readily patronize new firms.⁷⁴ The private sector provided a "new economic model," one that was "more efficient and capable," according to a young president in Beijing. "The strength of private business is that they follow economic law. They are walking at the front. Their ability is growing larger and larger," he proclaimed.⁷⁵ In response to competition from private firms, the government was being forced to change the managerial structure at state firms, to give managers more power, according to another interviewee. For this reason, he believed the private sector was having a "very good influence" on production managers in the state-owned economy.⁷⁶ Likewise, a high tech entrepreneur felt his company's aggressive new product development forced his state-owned competitors to streamline their management, to "shape up under the competitive pressure."⁷⁷

⁷²Interview number withheld.

⁷³Interview 52.

⁷⁴Interview 49 and others.

⁷⁵Interview 65.

⁷⁶Interview 73.

⁷⁷Interview 33.

Some business owners saw their firm's success as an ongoing refutation of the negative images of private businesses in the media. A restaurant owner in Shanghai viewed his business as a showcase both for the private economy and China. Private restaurants delivered a better experience than state restaurants, he believed, helping to convince people that private management was a competent alternative to state management. Foreigners also received a favorable impression from the high-quality food, atmosphere, and service in private restaurants.⁷⁸ Similarly, the owner of an engineering firm saw his firm's excellence as a protest against the Chinese government, which refused to permit private firms to certify their own designs. "Many state engineering firms do poorly, but they have the right to certify. That's the system in China. So my company just engineers better, so people will know there's this private company, and it does the best quality engineering." He considered that it was useless to complain, but took his firm's growth and profits as revenge. "Be silent. Do something. Earn a lot. That's the way," he asserted fiercely.⁷⁹

The benefits of the private economy were seen to be sufficiently profound to guarantee its continuation after Deng's passing. Ending the reform policies would have a negative impact on the whole country, declared a restaurant owner. "If I were asked to close my business because it's private, I would ask 'why?' and the government cadre would have no response. I am good for China, and would not close my business. People always want continued progress, no matter in what endeavor, whether in school or in business."⁸⁰ Another entrepreneur remarked somewhat more cynically that "Chinese always know very little about the outside, so they're easy to satisfy. If the people are rich and have enough to eat, they won't want the policy changed," he concluded.⁸¹ In short,

⁷⁸Interview 11.

⁷⁹Interview number withheld.

⁸⁰Interview 44.

⁸¹Interview number withheld.

business owners believed they improved the lives of their employees and their customers, and contributed to the well-being of Chinese society.

A final way entrepreneurs' experiences and perceptions conflicted with state pronouncements was in their understanding of the likely future development of the private sector. The government maintained that in the future China's economy would continue to be dominated by the state-owned economy, and that the private sector would merely be a "supplement." As a 1993 article proclaimed, the purported "highest pursuit" of the private economy was to be "a supplement to the publicly-owned economy," in accordance with the Chinese People's Republic Constitution of December, 1982.⁸² This assertion grew out of the Party's contention that China was only in the first stage of socialism, thus multiple forms of ownership could exist. According to official Party ideology, as the economy developed, the private sector would be phased out, eventually leading to common ownership of all property.⁸³ Private business owners disagreed with this appraisal. Based on their own experiences competing with state enterprises, they saw little hope for these firms in their present form. Because of this assessment, most entrepreneurs believed that the private economy would eventually dominate many sectors of the economy, with state firms surviving only if their ownership and management structure were transformed. Some felt that attempts to reform state-owned companies were doomed no matter what.

Private entrepreneurs varied in their estimates of how long the private sector would take to surpass the state sector. The most bullish opinion voiced was that the

⁸²Ma Tongtian. "Tan Geti Siying Qiyezhu de Zuigao Zhuiqiu (Discussing the highest pursuits of individual and private entrepreneurs)." *Qiyejia Tiandi* (6 1993): 43.

⁸³For example, Cai Wenhua, Wang Huaiqing, Chen Hua, and Tang Shiguo. "Siying Qiye Fazhanzhong de Wenti yu Duice: Chuanxi Pingyuan Diqu Siying Qiye Diaocha Baogao (The development of private industry: problems and solutions -- a findings report of the west Sichuan plain private enterprises)." *Sichuan Daxue Xuebao Congkan* (40 1988): 73-84.

transformation would occur within ten years. "The national slogan is 'state enterprises are dominant.' But actually, the yield of private firms is bigger than state firms," one entrepreneur alleged. "Most state enterprise managers are not interested in helping their enterprise, just themselves. But in the private firms, benefit to the manager is also benefit to the enterprise," reasoned another businessman, in giving an estimate of five to ten years.⁸⁴ Observing the rapid increase in private companies in the Hangzhou area, another entrepreneur figured that in ten years, the ratio of the private to state-owned economy would be reversed, with private firms growing from comprising 30% of the economy to making up 70% of it.⁸⁵ For other entrepreneurs, the period of change was longer, twenty or thirty years; yet the transformation was still inescapable.⁸⁶ A successful manufacturer who ran several enterprises stated that "the unification of ownership and the right to manage an enterprise is an inevitable trend."⁸⁷ Another businesswoman said simply, "the Chinese economy can not do without the private economy. The Chinese economy must go the way of the private economy."⁸⁸

Some business owners thought that heavy industry, like coal, steel, and oil, would continue to be dominated by state firms, primarily because they believed the government would never let private businesses enter these fields. Excepting these industries, a Beijing businessman gave a particularly dismal forecast for the state sector. "Even though the government says private business is a supplemental part of the economy, this in fact isn't the case. The public ownership system won't continue," he asserted.⁸⁹ Another business owner pointed to a painting of a sinking ship he had in his office. "That ship represents the state firms," he said, grinning.⁹⁰

⁸⁴Interview 39.

⁸⁵Interview 40.

⁸⁶Interview 9.

⁸⁷Interview 38.

⁸⁸Interview 24.

⁸⁹Interview 74.

⁹⁰Interview number withheld.

Though business owners I spoke with took the direction of economic change for granted, they figured the pace of the change would depend in part on government policy. Favorable policy could ensure a predominantly private economy in five years, while more conservative policy would extend this figure by twenty or more years. Business owners looked to the rapid transition of the past ten years as an indicator of the potential rate of future change. "In the 1970s, the economy was 70% state-owned, and 30% collective. This ratio has been reversed in a very short time due to a change in the policy," explained one Hangzhou businessman.⁹¹ While entrepreneurs were in agreement that private firms accelerated economic growth in China, and gave it "a better reputation in the world," they disagreed about the implications this had for government policy.⁹² While some argued that the government had no choice but to continue the frenzied liberalization of the economy, others felt a more moderate approach might prevail, albeit to China's detriment.

In terms of reform in the state sector, many business founders expected that state firms would effectively become private, whether through outright purchase, stock offerings, or private contracting. Entrepreneurs believed this kind of incremental accumulation of state enterprises into private hands was preferable to the "big bang" strategy pursued in Russia, which a majority saw as too chaotic.⁹³ Instant privatization "would be as if everyone in a boat suddenly got up and sat on the left side. The boat would capsize," elucidated a young executive.⁹⁴ Whatever the path to privatization, the dominant character of the Chinese economy would ultimately become like that of the existing private sector, according to the great majority of those interviewed.

⁹¹Interview 51.

⁹²Interview 25.

⁹³About one-quarter of entrepreneurs interviewed favored the Soviet style reform, believing it cleared the way for more rapid growth.

⁹⁴Interview 68.

In the case of private contracting, one entrepreneur felt that in the future, only owners of private companies would have the financial resources to lease large companies from the state.⁹⁵ In another explication of how the private sector would expand, business owners calculated that the trend of private firms taking over bankrupt state companies would greatly accelerate privatization. A businessman who himself had plans to purchase failing state enterprises contended that private companies buying state enterprises would soon “be common practice and widely accepted.”⁹⁶ He saw privatization in Eastern Europe as an indication of the possibilities for China. A young Shanghai executive remarked that “in a few years” it was possible that all small- and medium-sized state-owned companies would be sold to private owners. He reasoned that because of the economic benefit privatization would bring, “the government *has to* take action in this direction.”⁹⁷ Another business founder agreed that the state firms were doomed. He felt the only way they could stay in business was to privatize. “Lots of state firms have been bought by private entrepreneurs. The total number is a small percentage, but it’s an important trend. But you can’t go around saying this,” he observed.⁹⁸ One entrepreneur pointed to developments in liberal Fujian Province as a sign of things to come. He claimed that the last five state-owned businesses in Chuanzhou city had recently been sold to Taiwanese businesses, leaving no state sector remaining. He envisioned that even Shanghai, bastion of the state-run economy, “might slowly change to this situation.” For him, the key issue was the amassing of wealth outside the state economy. When there were enough individuals with the resources to buy state firms, the firms would be sold, he believed.⁹⁹

⁹⁵Interview 70.

⁹⁶Interview 28. Also interview 26.

⁹⁷Interview 25.

⁹⁸Interview number withheld.

⁹⁹Interview number withheld.

Though reforming state-owned enterprises by making them stock companies was commonly touted in the Chinese press as a promising solution to their woes, private business owners were more skeptical. While government plans for making state-owned firms into “stock companies” envisioned majority holdings remaining with the government or government-owned enterprises, private entrepreneurs judged that this model would fail. “You can’t just change the manager and expect these companies to suddenly perform well,” one owner argued. “If state enterprises become stock companies, they will simply sell each other the stock. For example, three state firms will sell each other stock. Then instead of one manager running the company, there will be three managers running the company. From a macro perspective, nothing will have changed.”¹⁰⁰ He held that only a more profound change in the management system would lead to good results.

A few businessmen anticipated that state-run companies would become publicly-traded stock companies, no longer owned by the government. Commenting that French and Japanese government-owned firms perennially lost money, a Beijing entrepreneur concluded that without change, there was no hope for the state firms. “I can’t say the state companies will be privatized, or I’ll get in trouble,” he remarked. But he went on to say that “state enterprises will become stock companies and stock companies will be run like the private companies.”¹⁰¹ He judged that if the government did not remedy problems in the state sector, China’s economic reform program would fail. Focusing on the question of who would buy the state enterprises, one business owner asserted that all companies would become privately-owned stock companies, but they would be owned by many people. “If private entrepreneurs want to expand, they need money, so they will have to sell stock to the common people,” he argued.¹⁰² Thus for business owners,

¹⁰⁰Interview 70.

¹⁰¹Interview number withheld.

¹⁰²Interview 68.

privatization of the economy did not necessarily mean sole ownership by a small group of entrepreneurs.

It was not only private business owners who perceived a gap between the Party's long-standing condemnatory portrayal of capitalists and the reality of private entrepreneurs. The vitality of the private sector and the apparent competitive advantages of private firms over state firms led a growing minority of Chinese to view private business owners favorably. Articles praising the virtues of private owners appeared more frequently in newspapers and magazines as the 1990s progressed. Some, like this 1993 article advocating lower taxes for private firms, even criticized people who continued to work in state-owned firms. "In recent years, there has been a mechanism causing a vicious circle in our country, that is, people who directly create wealth ... earn very little; thus, the people's enthusiasm for directly creating wealth decreases and everyone goes to a government office or unit to look for an easy job to drift along aimlessly," the article chided. The consequence of excessive taxation on private businesses was that "government offices and units are over-staffed, more and more people in society have to be fed by others, the number of those who directly create wealth decreases comparatively, and the burden becomes heavier." The author suggested that economic well-being ought to trickle down from private entrepreneurs to the masses: "we should... allow the people who directly create wealth to have a very light tax burden and to have a very high income in terms of proportion. We should make more people want to establish enterprises and create wealth to enable the number of those who have to be fed by society to decrease automatically." The end result would benefit all. "Because the number of those who

have to be fed by others decreases, the tax load of those who directly create wealth will lighten further,” the author asserted, creating a ‘virtuous cycle’ of economic growth.¹⁰³

A government circular from southern China was equally generous in its compliments for private firms: “the private firms follow the laws and demands of the market, producing as they see fit, acting quickly.” The circular lauded the entrepreneurs’ personal commitment to their companies as well. “The owners risk their life’s savings on [their firms]... they are self-motivated, self-disciplined, self-developed.” In a sentence worthy of the University of Chicago Economics Department, the circular went on to praise the entrepreneurs’ capitalist behavior in particular. “Business owners take all their knowledge and intelligence and pursue profit maximization and capital growth: they decide investment, use of capital, labor use, internal divisions, organization, management policy.... They focusing on optimizing their capital and the feasibility of the investments.”¹⁰⁴

Public pronouncements as well as internal documents attest to the Party’s struggle to reconcile its avowed communism with the emerging capitalist sector that was serving it so well. In this excerpt from the national *Economic Daily*, the author attempts to deny that private firms are capitalist, though the owners clearly profit from return on capital investment, and to deny that private business has increased the inequality of the distribution of wealth in China, though this is also clearly the case. The author reproves those who say otherwise. “Though Sichuan’s private enterprisers are ascendant, there are still some people with traditional ideas.... The influence of ‘leftism’ on society still lingers. In some places, the thoughts ‘developing private business is the same as

¹⁰³Zhong Pengrong. “Five Problems on Expediting the Development of the nonstate-run economy.” *Jingji Ribao*, 19 August 1993, 5.

¹⁰⁴Wang Xiangjie, Liu Juliang, Shang Guosheng, Ye Xumin, and Ye Shengsong. “You Yige Yijuntuqi -- Dui Fuyin Geti Siying Jingji de Diaocha (Another force comes to the fore -- Investigation of the individual and private economy of Fuyin).” Unpublished Hangzhou Government Report (Zhonggong Hangzhou Shiwei Bangongting), 1993.

developing capitalism' and 'developing private business brings unfair distribution' continue to exist." The author's purpose in making these claims is to battle Party officials' discrimination against private entrepreneurs: "In some places there is 'local' policy which follows outdated policies, serving the plan, not the market economy. Even though it is normally difficult for private enterprises to get bank loans, in some places people feel the banks are government banks, therefore exist to provide capital to government firms," the author remonstrates.¹⁰⁵ The author is presumably concerned that such discrimination by local officials against private firms slows the growth of the private economy and denies the Party the added employment and taxes.

In another instance of the Party's ideological conundrum, the author of a magazine article tries to distinguish China's private economy from private economies in other countries by focusing on its goals. "The purpose of capitalist production is different from individual and private production in China," the writer claims. "In capitalist countries, the object of production is to increase capital by taking surplus labor and turning it into surplus production value, namely, profit. In contrast, the object of private production in China is to make society wealthy and contribute to society," the writer alleges.¹⁰⁶ It is unclear whether the 'object' the writer refers to is the motives of the individual capitalists or the motives of the respective governments. In either case, the implication is hard to believe: the claim is either that China's private entrepreneurs have no profit motive, or that the governments of capitalist countries support their capitalist economies without believing that they "make society wealthy." In any case, differentiating China's private economy from those of capitalist countries solely on the basis of abstract "objectives" is tenuous at best.

¹⁰⁵Jingji Ribao. "Siying Qiye, Liangchu Nide Fengcai: Sichuan Xinban Siying Qiye Caifanglu (Private enterprises, show your elegant demeanor: a record of Sichuan's newly opened private enterprises)." 1994.

¹⁰⁶Ma Tongtian. "Tan Geti Siying Qiyezhu de Zuigao Zhuiqiu (Discussing the highest pursuits of individual and private entrepreneurs)." *Qiyejia Tiandi* (6 1993): 43.

This attempt by the Party to remake its ideology in conformity with new realities was also reflected in new expectations for the behavior of Party cadres. An article describing a private entrepreneur's experiences in setting up a business in the Zhuhai Special Economic Zone describes this new role. The article recounts how at the Private Business Bureau, an officer greeted the entrepreneur warmly and explained to him how he could invest in the Zone. Then, after spending only the 340 yuan specified according to national fee standards, the entrepreneur applied for a private enterprise license. To the businessman's delight, the interaction was corruption-free: "The whole time, the official didn't smoke even one of my cigarettes, or take even one meal from me, so I invited him to cut the ribbon of the new enterprise. He even declined this invitation graciously." The businessman praised the officer for his professionalism. "In him I could tell that I had seen the brilliant form of the true Communist Party cadre of the Special Economic Zone"¹⁰⁷

In essence, the three ways in which entrepreneurs' understandings of themselves and their businesses conflicted with state propaganda reflected the basic conundrum of the Communist state under reform. Private business owners are the most fundamental enemy of a Communist state. In order to acknowledge the benefits of a private economy, to admit that private business owners were not evil exploiters, and that their businesses contributed to society, the Communist Party had to uproot its ideological foundations. In the mid-1990s, it was not yet willing to do this. But the discordance between state pronouncements and the evidence of daily life produced a profound cynicism toward Party propaganda among private entrepreneurs.

In the course of my interviews, entrepreneurs occasionally injected comments that revealed this cynicism, though it was politically sensitive to do so. They often prefaced

¹⁰⁷ Wu Zhitang and Huang Jianguo. "Woshi Siying Qiye Fazhan Ru Yudeshui (This city's private businesses are developing like fish in water)." *Zhuhai Jingji Techu Ribao*, November 28 1992.

their remarks with comments such as “I should not be saying this,” or “one is not supposed to say these things to a foreigner.” These remarks led me to conclude that though only a portion of business owners voiced such beliefs, they were in fact more commonly held.¹⁰⁸ “The socialist road is not good, and people aren’t allowed to say the capitalist road is good,” noted a middle-aged Hangzhou businessman. “They can’t say it, they can just do it.”¹⁰⁹ Another entrepreneur elaborated further on the inconsistencies of the Party’s pronouncements. “The government says the private economy is a necessary part of the Chinese economy, but because it is a socialist country, they say it is not the long-term path. But what is long-term?” he asked. He then raised the fundamental ideological dilemma of the reform period, the conflict between communist tenets and economic growth. “The main point of the socialist economy is to eliminate private ownership. But the Party is developing the private economy; it has no other choice, the state enterprises are all doing poorly. There’s no way the government can change the policy toward private businesses. If the government changes the policy, China will be unstable,” he said.¹¹⁰

The decreasing credibility of government declarations regarding the private economy led some entrepreneurs to caution the government about saying one thing and doing another. “The government must obey its words,” warned one restaurant owner. “If the government doesn’t do what it says, the common people will not believe them.”¹¹¹ A woman reiterated this point. “Empty political pronouncements can’t be believed by the people. The government must do what it says, implement its pronouncements,” she declared.¹¹² For some, the schism between Party propaganda and the reality of the

¹⁰⁸This conclusion is further substantiated below, in a discussion of why many entrepreneurs nonetheless viewed the Party favorably.

¹⁰⁹Interview number withheld.

¹¹⁰Interview number withheld.

¹¹¹Interview number withheld.

¹¹²Interview number withheld.

reforms implied the end of beliefs entirely. A Beijing entrepreneur expressed the ideological void she perceived:

People in China are only interested in their own benefit these days. Before, we were Red Guards, we believed in Mao Zedong Thought. But now people don't believe in anything. They only believe in themselves. Before, there were the three mountains of traditional thought: feudalism, capitalism and imperialism, which Mao got rid of. Then there was Mao until 1973. They got rid of the traditional thought, then they got rid of Mao, and now there's nothing.

Certainly many Chinese who were not private business owners experienced similar disenchantment with the changing tides of Party pronouncements. But the discordance between the daily experiences of private entrepreneurs and Party propaganda regarding them made accepting Party ideology particularly difficult for them.

BELIEFS ABOUT THE COMPETENCE AND LEGITIMACY OF THE COMMUNIST PARTY

In order to use its network of cadres to carry out the basic duties of governance, the Party relied not just on coercive power and ideology, but also on its own organizational prestige. Though private business owners were skeptical of the Party's ideological stance towards them, did they nonetheless believe that the Party was a competent and legitimate leader for an economically reformed China? If despite their disagreement with Party propaganda about their role in Chinese society, entrepreneurs still saw the Communist Party as crucial to their own success and China's future, they would be more willing to support the Communist Party during hard times in the future. If, however, entrepreneurs saw Communist Party rule as irrelevant or harmful to their success or to China's future, then they might quickly shift allegiance to an emerging political opposition. This section thus examines entrepreneurs' views on the functional relationship between themselves and the Party.

Owners can be divided into roughly two groups in terms of their perception of the relationship of private business to the Communist Party. One group of business owners

understood the growing private sector to be fundamentally in keeping with Communist Party governance. They saw the private sector and the Communist Party as sharing two essential goals: economic growth and social stability. They believed that the private economy furthered these goals, and that Party leadership tacitly recognized this affinity. These entrepreneurs tended to see the Communist Party as more or less competent, aware of how society was changing and bent on reforming itself to keep pace. This group of business owners saw rule by other existing political parties as the only alternative to Communist Party rule. They dismissed these parties, which had been maintained as tokens by the Communist Party since its 1949 victory, as inexperienced and underdeveloped.

The second group of business owners differed sharply from this first group in their perspectives on the Communist Party and its relationship with the private economy. They saw an intrinsic conflict between a private economy and Communist leadership, seeing the expanding private sector as contradicting the Communist Party's reason for being. Thus they believed that the growing private sector was steadily undermining Party rule. Furthermore, they envisioned the alternative to Communist Party rule as either a new political party, one without Communist ideology, or a more democratic government in which several political parties would compete. Unlike the first group of entrepreneurs, they did not view the existing non-Communist parties as the sole political alternative.

Despite their strong differences of opinion, most entrepreneurs in both groups believed that private business owners were themselves influencing the functioning of the Party because they were gaining a voice in Party decision-making.

In addition to exploring the different view entrepreneurs had of their relationship to the Communist Party, this section also details some common characteristics of entrepreneurs in the two groups, in order to understand why entrepreneurs differ in these

beliefs and what the implications of these differences might be for the political behavior of entrepreneurs in the future.

Because Party utterances regarding the private economy were not believable, business owners in the first group assessed the Party strictly in terms of its performance. Entrepreneurs focused on two criteria in evaluating the Party's performance: social stability and economic growth. Entrepreneurs concerned themselves with two types of social instability. Primarily, they were concerned with instability spurred by Party-led political campaigns, such as the Anti-Rightist Campaign and the Cultural Revolution. A return to governing through these campaigns of mass mobilization, which had characterized the Maoist era, was seen by business owners as incompatible with economic growth. They felt the Communist Party recognized this incompatibility.

Secondarily, entrepreneurs were worried about grass-roots social instability caused by popular dissatisfaction with government corruption or economic hardship. It is important to note that though "business interests" are often seen as being at odds with the "popular interests" of the working class, business owners were far less concerned about popular protests like the Democracy Wall movement of 1978 or the Tiananmen Square demonstrations of 1989 than they were about Party-led movements. It is easy to understand why this might be the case when one compares the scale of these two kinds of instability in recent Chinese history. The Tiananmen protests of 1989 involved at their peak perhaps one million people, and lasted a few months; activity was confined to marches through the streets and public speeches. The Cultural Revolution, in contrast, lasted years, deeply involved millions of Chinese, and had a profound impact on their daily lives. Furthermore, many of the Party-initiated campaigns, including the Cultural Revolution, specifically targeted private entrepreneurs -- in contrast to popular protests that targeted the government itself.

I asked business owners if there were any policy changes needed for their businesses to continue to grow. Entrepreneurs who felt the Communist Party and the private economy were mutually supportive responded to this question by emphasizing the need for political constancy. A former state enterprise manager insisted that “the policies are OK. The most important thing is that there are no big changes. I want a stable policy,” he said.¹¹³ Another company president reiterated that “there don’t need to be any government or policy changes. The policy is OK. I don’t want big campaigns or instability.” A business owner in Shanghai who had lived through the Cultural Revolution reflected on the political turmoil she had seen. “After a while,” she said, “you’re surprised so much by the changes that you really aren’t surprised by anything.” As a result of her experiences, she was vocal in her opposition to more unrest. “I don’t want big changes. I want stability,” she declared.

These business owners maintained that because many Chinese bore such scars from the Cultural Revolution, a recurrence of this kind of intense political change was unlikely. For example, in alleging that, in general, people were opposed to political change, a former doctor explained, “if there is political unrest, it takes ten to twenty years to recover from it, so people don’t want any big changes.” A young entrepreneur in Shanghai felt the most likely route to political change was gradual. “The Chinese people won’t tolerate social or political instability, big fluctuations in government. It will take lifetimes for people’s thought to change, and for them to gain more education, maybe thirty to fifty years,” he contended. Business owners believed that the economic reforms had altered Chinese society, making it less susceptible to instability. “China is no longer a political society. China has now become an economic society,” claimed one entrepreneur. “If people have enough to eat, things are OK. Deng is not a god,” he said, contrasting the Deng regime’s economic orientation with Mao’s cult of personality.

¹¹³Interview numbers withheld in this section.

“After Deng dies, I want stability,” said another businessman. “But in any case, the policy won’t change a lot. The government can’t stop the development of the private, collective, and foreign firms because these companies advance the lifestyle of the Chinese people.”

In addition to desiring political life free from mass mobilization campaigns, entrepreneurs also wanted a society that was not plagued by unrest rooted in popular discontent. This group of entrepreneurs who saw no conflict between the Communist Party and the private sector invariably explained that private businesses contributed to this type of social stability. These people saw such stability as a goal shared by private business and the Communist Party alike. They believed that if the Communist Party were not firmly in charge of the Chinese state, social crisis would prevail. In claiming that the private economy and the Communist Party were mutually supportive, an entrepreneur offered this reasoning. “The People’s Delegation recently met, and promulgated the following slogan: ‘Development, Reform, Stability.’ There is no contradiction between the Communist Party and the private economy.” He felt the Communist Party was the only political force capable of maintaining stability. “There will be no parliamentary system, just one party. The common people support the Communist Party. People will not rebel against the Party like in other countries. After all, the market was Deng’s idea,” he concluded. An elderly business founder likewise trusted that China would experience a smooth transition when Deng died. “All Chinese now understand the need of the reform. Everything in terms of leadership depends on the Communist Party. There is no other Party that is as strong.” In expressing his confidence in the Communist Party, he also revealed his supposition that the alternative to the Communist Party was rule by one of the inconsequential political parties in the ‘United Front’. In a similar statement, a Beijing businessman asserted, “if there is not strict law in China, things will be chaotic. The Communist Party is a solid party. It

should be the only party in China.” Thus these business owners respected the Communist Party’s ability to manage China’s huge and diverse population. Furthermore, upon surveying the existing political landscape, they saw no viable alternatives to the Communist Party in filling this role.

In addition to judging the Communist Party on its ability to maintain stability, these entrepreneurs also evaluated it on its capacity to foster economic growth. Entrepreneurs voiced the opinion that the Communist Party could retain the support of the people if economic growth continued. “The Communist Party is the leader. If they have chosen a good development direction, the people will support them.... If the policy makes people rich, people are willing to follow the government,” said a Hangzhou entrepreneur. In commenting on the Tiananmen protests of 1989, one woman felt that with more economic growth, these kinds of protests would end; “when the economy is better and people are richer, people will not oppose the government,” she predicted. A couple of entrepreneurs expressed the same sentiment a bit more cynically. A manufacturing magnate in Shanghai offered this analysis: “the commoners have followed the Communist Party for forty years and they will continue to do so because they’ve been brainwashed. Furthermore, they have enough to eat and drink, so they’re not interested in revolution.” A Hangzhou trader put it this way, “if Chinese are rich and have enough to eat, they won’t want the policy changed. Chinese always know very little about the outside, so they’re easy to satisfy.”

In seeing no conflict between the private economy and the Communist Party, these entrepreneurs pointed out that the private businesses contributed to economic growth, which, in addition to political stability, was a second goal shared with the Communist Party. Several entrepreneurs made this connection explicit in my discussions with them. “The private economy gives vitality and wealth to the country. Without wealth, there’s no use. There’s no contradiction between a Communist party and a

private economy,” explained a Hangzhou restaurant owner. Another man explained that there was no contradiction with the CCP because “the CCP invests in the state enterprises, and they pay taxes to the government, while the CCP does not invest in the private enterprises, but they also pay taxes to the government.” Again, the focus of his comments is on the mutual goal of economic achievement. Finally, a business owner who felt that politically, China “would not become like the U.S. or Italy,” despite its growing private sector, noted that “people are thinking up lots of new theories, to solve this problem,” to reconcile a private economy with a Communist state.

Though business owners in this group did not anticipate that, and for the most part did not wish for, the Communist Party to be threatened by the private economy, many nevertheless also believed that private business owners were gaining political influence. This was a perspective that was shared by the second group of entrepreneurs, who believed that there was a fundamental contradiction between the private sector and the Communist Party. Thus people in both groups believed private business owners were gaining power, though they differed in how radical their ultimate vision was.

The Marxist training that entrepreneurs had received clearly influenced the way they thought about politics. Many entrepreneurs concluded that because the economy was changing, politics would also change in China. When an entrepreneur was asked whether political change was needed for the economic change to continue, he replied, “Definitely. Economics and politics are part of the same body, an organic whole. You need the political and social changes to be at a mutually suitable level for the economic changes. You have to follow a historical development path.” A high-tech entrepreneur replied in similar fashion, asserting that “you can’t separate political and economic change. Twenty years ago you couldn’t, and you can’t now.” Though these businessmen believed economic and political change were inseparable, they did not presume that, as

Marx had claimed, a private economy would lead to a democracy dominated by the interests of the capitalist class. In elaborating on how the economic reforms would influence politics, the high-tech entrepreneur confided, “I don’t really know what’s going to happen. However it will change, it will change.”

For some entrepreneurs, the economic basis of politics meant that political change would occur over the course of decades, as the underlying economic conditions were altered. A wholesaler was plain about the relationship between his communist education and his present thinking. “I was taught in Marxism that ‘base determines superstructure,’ and therefore Chinese people’s and government’s thoughts and behavior will not change until the economy changes and the standard of living is improved,” he said. A clothing manufacturer reiterated this sentiment, commenting, “political change is inevitable when there is economic change. The economic changes are affecting politics. But first, the generations need to change, because the mind set of the older generation is very hard to change.”

Although entrepreneurs disagreed in these ways about the political implications of economic change, a large number of entrepreneurs agreed that because the private sector was growing, private business owners were gaining political influence. Though they were not asked directly if private entrepreneurs were gaining political power, nonetheless 40% of business owners I spoke with cited specific ways in which the political power of private entrepreneurs was increasing.¹¹⁴

In arguing that the private business owners were gaining political power, an entrepreneur rooted his opinion in Marxist analysis. “The base determines the superstructure; the political system is determined by the economic system.... The

¹¹⁴Interviewees were asked two general questions: “What kind of impact do you think private entrepreneurs have had on Chinese society?” and “What kind of economic changes are required for your business to continue to grow, if any? Do you think it is possible for these changes to occur without political changes?” See appendix 2 for the complete interview protocol.

government increasingly supports the private economy, because this is where their interests lie," he reasoned. He then offered a personal reason Party officials might have to advance the interests of private business owners. "Economic changes have already influenced the government and policy. The private economy has already changed the politics because many children of Communist Party members and government workers have their own private businesses. So the Party will protect the system to protect themselves," he said. Echoing those business owners who thought that economic reform would cause political change in the long run, a wholesaler of food products claimed, "the private entrepreneurs are having a larger and larger influence. They don't have a big sudden influence, but a slow and steady influence." A young Shanghai entrepreneur focused on the slow change in the composition of government leaders, assuming that the gradual replacement of leaders as the generations changed would result in a new approach to politics. "The economic changes will certainly have a big impact on Chinese politics, because in the future, people like me, who have been private entrepreneurs or contracted state enterprises will be in power. Now the main leaders in China are war veterans; in twenty years the leaders will be intellectuals and college graduates," he said.

With the Marxist notion that economic change drives political change a common component of their thinking, business owners offered a variety of direct and indirect ways the private sector was gaining political influence. In one line of reasoning, a Shanghai trader made reference to China's growing incorporation with the world capitalist economy. He considered that the re-acquisition of Hong Kong by the mainland government would strengthen the political influence of private business on both sides. "Whatever they do to Hong Kong companies they might do to the private firms in China as well. There will be several large private enterprise groups in China by then, and they will have lots of money. The government will need the support of large groups, so they will have to have private business owners' support." Furthermore, he added, the Chinese

government will need a stable economic policy toward domestic industry to assure Hong Kong private business owners. Thus in this entrepreneur's view, the growing political strength of private businesses on the mainland will benefit Hong Kong firms, and the need to create a stable business climate for Hong Kong will benefit private firms on the mainland.

A few businessmen contended that particular private business owners were gaining influence proportionate to the size of their firm through the representative organizations. One entrepreneur anticipated that owners of larger companies would take on more social responsibility, and would, in turn, be given more of a voice in the political process. He gave as an example the biggest private entrepreneur in China, who had a seat on the all-China People's Consultative Conference. Another entrepreneur took increased private business representation on these organizations as a sign that as the private sector and the Communist Party were not incompatible. The People's Consultative Conference, whose role he described as to "supervise" the Communist Party, had many private entrepreneurs in it. The People's Congress, he noted, "doesn't have too many private business owners in it, but before, it was completely impossible for business owners to be on it, so things are changing slowly."

A Shanghai businessman also cited ways in which the political influence of private business was growing as the size of the private sector grew. "As individual businesses become private businesses, and private businesses develop into stock companies, private owners in turn will affect and enter higher levels of government." Owners of larger private companies, he felt, would begin to see that government policy had a crucial impact on their companies, and they would seek to gain a political voice. "People with ten million yuan invested have to start to understand government issues. They need to participate in the government. They are willing to participate in the government, so they will get better government support and links." Government

officials, for their part, would pay attention to these business owners because it was in their interest to do so. Just as the Shanghai government helped and supported state-owned enterprises because they relied on them for tax revenues, so too did provincial governments in southern China rely on private businesses. “One can’t really see that this has happened in Shanghai, because the level of development of the private economy is small, but one can see this already happening in other parts of China, like Guangdong Province,” he maintained.

In a similar argument, a Hangzhou company president saw taxes as the conduit through which political influence would flow. He believed that as private entrepreneurs grow stronger, “they will look for a new system.” But these political changes would be gradual, and would occur as people got wealthier, he believed. “It won’t be like Tiananmen; although I sympathize with their goals, I don’t approve of their technique. The regions will become more dependent on the taxes of the private economy. The provinces will protect their income from the central government. Because taxes are decentralized, the locality will protect private and township enterprises to get revenues,” he explained. Other business owners were less detailed in their explanations, but the gist of their beliefs was the same. “Private owners will form a group of rich people in society and they’ll influence government thought. The state-run enterprises are losing money and will go bankrupt. Private businesses have the most hope, the most future, of all types of companies,” pronounced a high tech businessman in Beijing.

The connection Chinese entrepreneurs perceived between economic power and political power was reflected in differences of opinion among entrepreneurs. Those entrepreneurs who thought that the private economy was gaining strength were also more likely to think that private business owners were gaining political power. Those who did not believe private businesses were gaining economically tended not to believe that they were gaining politically. Regressing beliefs about whether entrepreneurs are gaining

political power on beliefs about whether they are gaining economic strength yields a slope of 0.64.¹¹⁵ This regression result means that a shift from believing private business owners were gaining no economic strength to believing they were gaining substantial economic strength was accompanied by a shift from believing they were gaining no political power to believing they were gaining moderate political power. Details of this relationship can be seen in Table 4.2.

Table 4.2: Beliefs about Private Entrepreneurs Gaining Political Power by Beliefs about Gaining Economic Power

	Slight	Economic Gain Moderate	Substantial
No Political Gain	100	50	22
Moderate Political Gain	0	50	44
Substantial Political Gain	0	0	33
N Cases	1	14	27

Pearson chi-square 9, DF 6, sig=.17

The beliefs of entrepreneurs also varied with their age. The entrepreneurs who were most likely to perceive increased political power for private business owners and who were most in favor of major political reforms were those who had been in their teens or early twenties during the Cultural Revolution (born between 1947 and 1956), while the oldest cohort was the least likely to voice such opinions. While sixty percent of the Cultural Revolution cohort and 30% of the post-Cultural Revolution discussed these issues, not one of ten entrepreneurs I interviewed who were in the oldest age group pursued this line of discussion (Table 4.3). On most political issues, the Cultural Revolution cohort were distinguished from other entrepreneurs by the opinions they expressed. When compared with other entrepreneurs, entrepreneurs in the Cultural Revolution cohort differed in the following ways: they were more interested in politics,

¹¹⁵Standard error of the slope=.21, significant < .01, regression R-square of .18

more bullish on the economic development and political power of private business owners, more anti-Party, more likely to think political and economic change would be rapid, and more likely to favor democratization. These differences and their implications will be discussed further later in this chapter.

Table 4.3: Mentioned Private Entrepreneurs Gaining Political Power by Age Cohort (%)

	Youngest	Middle	Oldest
Mentioned power gain	30	62	0
Did not mention power gain	70	38	100
N Cases	20	26	10

Pearson chi-square 12.6, DF 2, sig=.002

While the first group of private business owners essentially supported the Communist Party and felt that the private economy was a complement to it, the second group of entrepreneurs disagreed. These entrepreneurs perceived a fundamental rift between the functioning and goals of the Communist Party and those of the private sector. Some people in this group perceived that the goals of the Communist Party were slowly being replaced by those of the private sector, that the Communist Party was in the process of losing its communist traits. In essence, they believed that the Party was being co-opted by the private economy.

When asked about the ability of the CCP to coexist with a private economy, a young Beijinger raised the core issue, replying that “Marx said the Communist Party was the party of people with no property, but the private business owners have property.” In seeing an intrinsic paradox between the private economy and the Communist Party, an entrepreneur in Beijing asserted that the private business owners were becoming a “class” in the Marxist sense. “It’s not clear in Beijing, because there are only six thousand entrepreneurs, and that’s too few to constitute a class. But in other parts of China it’s

clear. For example, in Wenzhou, 70% of enterprises are private.” For him, the emergence of a large number of capitalists posed a problem for the Communist Party. He challenged the claims of the Party that the ownership and management structure of enterprises was unimportant as long as the enterprises created wealth. “Deng said ‘Black cat, white cat, either is OK as long as it catches mice,’ but actually, there is a conflict. This situation will be a contradiction,” he asserted.

To prove that the private economy was essentially at odds with the Communist Party, a business owner in Beijing cited the government’s definition of ‘private business owner.’ He pointed out that ‘individual’ and ‘private’ business owners were differentiated in the law based on the number of employees they had. If a business had fewer than eight employees, it was an ‘individual’ business, more than eight, ‘private.’ For him, the roots of this definition were highly significant. “Why is this so?” he asked. “It’s from Marx -- if you have more than eight employees, you’re an exploiter. So ‘private’ entrepreneurs are defined by the fact that we are exploiters.” Another man pointed to his participation in the People’s Consultative Conference as an indicator of the conflict between the Party and private business. “The Consultative Conference is organized under the United Front Bureau.¹¹⁶ This fundamentally recognizes private business owners as the enemy faction. So when you ask if there’s a contradiction between the Communist Party and the private economy, in some basic way, it’s not resolved.”

Because these business owners felt there was an ideological conflict between the Party and the private economy, they believed the conflict might materialize in a more concrete manner if the ideology of the Communist Party did not change. The entrepreneur who pointed to how private business owners were defined expressed this

¹¹⁶The idea of the United Front was to unite the Communist Party with its potential enemies in order to achieve greater goals, for example, to fight the Japanese.

concern. "The government lets us continue, but basically, there's a conflict. There's a risk that one day the country will obliterate private businesses," he said. A woman in Beijing concurred. "The Party is going to want to control the private economy when it grows too large, because they won't want the size of the private economy to exceed the state-owned economy. If the private economy exceeded the state-owned economy, this would be a problem of type: Communist Party and private economy," she explained. In her opinion, this conflict had already manifested itself in the government's crackdown on private businesses following the 1989 Tiananmen demonstrations and massacre. She felt the government "was looking for an excuse to crack down on private business owners," and that the high-profile involvement of some private business owners in the demonstrations had provided that excuse. "The Party was warning us not to get involved in politics. The government fears that if a private entrepreneur's company grows large, he will have influence in the government. This is why the Party took over the management of the Stone Corporation after Tiananmen," she said. In the end, though, she agreed with the large majority of those I interviewed in maintaining that the private economy would continue to grow. "The Party won't be able to control the growth of the private economy," she concluded, despite the fears of the Party leadership. She trusted that the private sector would prevail in this conflict, in part due to the corruption in its ranks. "The officials hold the red flag aloft, but they are hypocrites. The common people don't support the Party," she concluded.

Many entrepreneurs in this group, who believed that the private economy and the Communist Party could not continue to coexist, considered that this conundrum would be resolved with the Party changing its defining ideological characteristics, in other words, by ceasing to be a communist party. The question of whether private business owners were adopting the culture of the existing ruling strata, namely, the Communist Party, or whether the Communist Party was adopting the norms of the private business class is of

particular interest from the perspective of comparative politics. In his explanation of twentieth century fascism and democracy in Germany and England, Barrington Moore cites the relationship between the burgeoning business class and the existing aristocracy as one causal factor. In the German case, he maintains that the bourgeoisie “generally absorbed the [aristocrats’] habits and outlook,” whereas in England, the reverse was true.¹¹⁷ The failure of the German aristocracy to adopt a commercial outlook, to adjust itself to the economic threat from American agriculture, led to the formation of a reactionary “iron and rye” coalition of landed aristocracy, peasants, and industrialists, which sought to use the state to maintain its economic standing.¹¹⁸ Thus Moore ascribes the ascent of fascism in part to the failure to develop a capitalist economic culture in Germany. In contrast, he claims that the commercialization of the British aristocracy meant that they did not oppose the development of capitalism or democracy in England.¹¹⁹

This analysis relates to present-day China in that it examines the reaction of a socially and politically dominant group to the emergence of new group whose status and power rests on capitalist, market-based economic development. If Communist Party members do not adapt themselves to China’s new economy by adopting a market, or bourgeois, outlook, then they may become a powerful force opposing the market and the entrepreneurs. If, however, they adopt a commercial outlook, then their interests will lie with the interests of the private sector and the rest of the market-based economy. Essentially, adopting a market outlook (and accompanying behavior) means redefining their role as one which supports, and is in turn supported by, the private economy. If, like British aristocrats, Communist Party officials gain from the development of a capitalist

¹¹⁷ Moore, Barrington, Jr. *Social Origins of Dictatorship and Democracy: Lord and Peasant in the Making of the Modern World*. Boston: Beacon Press, 1966, 37.

¹¹⁸ *Ibid.*, 38.

¹¹⁹ *Ibid.*, 36.

economy, they are less likely to seek repressive means to maintain their political power in the face of the economic threat. Private business owners in this second group of entrepreneurs believed that the Communist Party, and Chinese society as a whole, was in the process of changing to a commercial outlook and commercial behavior.

Entrepreneurs reflected that Chinese society had changed under the reforms, that communist values were no longer important. “Thoughts have changed, about communism,” said a Hangzhou businessman. “Now the focus is on material development. Before, people thought it was okay to be poor. Now people think being rich is better.” Because of this new focus on material well-being, the determinants of social status had changed from political to economic, and people’s personal goals had likewise changed. A restaurateur described the transition: “Before, people only thought about political status. Before, you couldn’t talk about money, it was called capitalism. These ideas have changed. Now, if people have money, they are respected.”

Entrepreneurs often commented, both positively and negatively, on the pervasiveness of the new money ethic, as did this middle-aged man:

Mao said everyone should have even treatment. That was the spirit of Mao’s thought. Today’s thought is money. That’s today’s value. This will change everything. Whether the result will have anything to do with socialism remains to be seen. It’s not just the private entrepreneurs, it’s the university students, the cadres. Everything is money. Without money, you can’t do anything.

Though business owners of all political beliefs mentioned the increasing importance of wealth in China, this second group of entrepreneurs, unlike the first group, tended to see this new ethic as being at odds with communist goals and the Communist Party. They felt that the Communist Party could not embrace market-oriented reforms while claiming to reject the money culture that the reforms bred. Instead, these entrepreneurs believed that the goals of the Party and the motives of its cadres were undergoing rapid metamorphosis.

A few entrepreneurs who were familiar with Western countries mocked what they perceived to be the Party's attempts to hide its new, non-communist nature under political rhetoric. In reconciling the market-oriented reforms with communist doctrine, the Chinese Communist Party had explained to the Chinese masses that the market reforms were merely China's own variant of socialism, designed to better suit national conditions. The Party advanced the slogan "Socialism with Chinese Characteristics" to describe this variant. But this second group of entrepreneurs questioned the truthfulness of this claim. "In the South, you can see that the 'Chinese characteristic' of 'socialism with Chinese characteristics' is capitalism," pronounced a Hangzhou company president. "There's no difference between 'socialism with Chinese characteristics' and capitalism," he declared. For him, the Chinese Communist Party was effectively no longer communist. A computer reseller in Beijing detailed for me the ways in which the Communist Party was pursuing a capitalist development strategy. He pointed out that state-owned companies were becoming private, with the state permitting and encouraging private business owners to buy ownership in them. To him this meant that "Chinese socialism and U.S. capitalism are merging." He considered 'Chinese socialism' and 'capitalism' to have "no essential difference." "Although we call it the Communist Party," he said, "that's just a name."

In China, this notion that reforms led by the Communist Party might, in essence, be capitalist is heresy. Mao's deepest fear, his *bête noire*, was "peaceful evolution" -- a gradual and peaceful shift from socialism back to capitalism. Yet in one interview, an entrepreneur casually remarked that this was obviously what was happening in China. "China's evolving, and it's peaceful, isn't it? I think peaceful evolution is better than fighting evolution," he said. He saw adopting a capitalist economy as a natural step in China's century-long struggle to modernize. "The attitude of the Communist Party is different now than it was during the Cultural Revolution. Wasn't Marx a foreigner? He

was a Jew, yet we accepted Marxism. All our clothing is in Western style. No one's suggesting we go back to Chinese robes." Rather than deriding the Party's hypocrisy, this entrepreneur thought the Party's transformation was another reasonable stage in China's response to the economic challenge from the West and Japan.

Other business owners contended that the only way the Communist Party would stay in power would be to undergo this fundamental shift. A Hangzhou entrepreneur boldly forecast that private business owners themselves might oust the Party if it failed to take this path. "If the government changes its policies in this way, it will get the support of the private owners, if not, maybe it will be overthrown by us." He felt this would not be necessary, however. "I believe it will change its policies. In name it will be Communist, but in actuality, its nature will change. The government will actually serve the people, not only in words, but in actions," he predicted.

Like others who saw similarities between China's reforms and capitalism, this entrepreneur was quite familiar with the political and economic situation of the world's wealthy nations. Business owners who were less familiar with the world outside China did not have a strong sense of what capitalist countries were really like, and therefore accepted Communist Party propaganda on this subject at face value. They did not puzzle over the meaning of "Socialism with Chinese Characteristics," and therefore saw no inherent contradictions in the Party's evolving role. Entrepreneurs who had traveled abroad were more likely to believe that private business owners were gaining substantial political power and also more likely to foresee the imminent demise of the Communist Party (Tables 4.4 and 4.5)

Table 4.4: Belief that Private Entrepreneurs Are Gaining Political Power by Foreign Travel

	No Travel	To a Non-democracy	To a Democracy
No political gain	46	25	13
Moderate political gain	38	63	37
Substantial political gain	17	13	50
N Cases	24	8	8

Pearson chi-square 9, DF 6, sig=.17

Table 4.5: Mentioned Communist Party is Doomed by Travel to a Democracy

	Traveled to a Democracy	No Travel to a Democracy
Did Not Mention Party Doomed	40	89
Mentioned Party Doomed	60	11
N Cases	10	44

Pearson chi-square 4.8, DF 1, sig=.03

Among those who did see a contradiction between the development of a private economy and Communist Party rule were business owners who believed that the Communist Party was not competent enough to govern a market economy. One former Party cadre said that in thinking about his company's future, he was most concerned about government policy. "I don't know how it will change in the future," he said. "The change is inevitable, but the question is how? If there are one or two stupid officials who make a stupid policy, my company may die immediately." A young Shanghai entrepreneur condemned the entire senior leadership of the Party. When I asked him what the biggest problem facing China was, he replied with a laugh, "waiting until the old men die." A manufacturer in Shanghai likewise felt that China's biggest problem was the Communist Party, and denounced it from top to bottom. I asked him which of the Party's top leaders was the best, and he responded, "no one," commenting that they were all ineffectual. He also cited the leadership's inability to get accurate information from its

own lower levels. “Statistics are a serious problem. The Party offices will give the government whatever statistics they want,” he explained. Finally, he castigated the rank and file officials. “The effectiveness of Chinese officials is very low. They just sit all day and read the newspaper,” he said.

As a group, business owners’ confidence in the Communist Party’s governance was not high (see Table 4.6, below). Entrepreneurs were almost evenly divided among negative, neutral, and positive assessments of the Party. Only 35% of entrepreneurs were “positive” towards the Party governance, including only one entrepreneur (out of over 50 interviewed) who was “highly positive.” It is also important to keep in mind that entrepreneurs were more likely to make more insincere positive statements because negative statements about the Party were politically sensitive. These figures therefore overstate the support for the Party among entrepreneurs.

Because entrepreneurs in this group questioned the basic competence of the CCP, they had an easier time envisioning the Party being overthrown from without or taken over from within. A company president in Hangzhou was dismissive of the Party’s ability to nurture the private sector. “I don’t care about policy change or governmental change. I don’t want them to help and don’t expect them to help. I just don’t want them to make trouble.” He disdained policy change because he believed that the private sector would soon control the government. “In five years, the strength of private business owners will increase to the point where we control the action of the government. The collective and state-owned firms will go bankrupt.” He anticipated that the private sector’s take-over of the government would mirror Mao’s military triumph over the Nationalists, which, in reverse of the Soviet Communist Party’s victory, progressed from the countryside to small cities, and then to major metropolises.

The private economy is following Mao’s plan of countryside to small cities to large cities. We are at the small city stage, the countryside stage is done. First, the private business owners will obey any rules the government has, fair or unfair. If the government wants taxes, we will

pay. We won't contradict them directly. Later, we will say, 'This rule is unfair, change it,' and it will be changed. Now, if we complain, we have no right to do so. But later, if we complain, the government will say 'okay,' and change it.

The entrepreneur contended that, as the private economy came to predominate, this political take over would happen smoothly. "We will increase our own power and dominate the economy; then the politics will change naturally," he predicted.

A business owner and former Party cadre from Shandong Province also forecast that private entrepreneurs would soon dominate the Communist Party. "When someone opens a company, they have power. They have economic status, and they will have commensurate governmental status. They will go from the economic stage to the governmental stage," he asserted. He maintained that the influence of business owners was already being felt through their representatives in the People's Congress and the Consultative Conference. He also mentioned a further mechanism for the conversion of economic power into political power. "What is happening in a lot of localities is that the richest person is becoming the head of the village. The capable man will lead. Thus, naturally, the richest person is in charge of the government," he said. He saw this transition as very favorable. "These kinds of people are occupying more and more positions in the government, and that's good, because they understand the economy. If their percent in the government is higher, the Communist Party will be better off. My best friends are officers in Communist Party, and they agree with me wholeheartedly," he declared. He perceived the basic nature of the Communist Party as changing from within in this manner.

The views of this entrepreneur were representative of other former Communist cadres, who, compared with other entrepreneurs, tended to assert that radical political change was in store for China, and that private business owners would be a central part of that change. These assertions stemmed from their low opinion of the Communist Party's competence and their negative view of the quality of Communist Party governance of

China. In essence, they felt the Communist Party was decaying, and that it would be replaced or fundamentally altered by the more vigorous social forces emerging from the economic reforms. The views of these former cadres were shared to a more moderate degree by Communist Party members who had not been Party cadres (Table 4.6). The harsh assessments of former Party cadres and current Party members regarding the Party's basic fitness to rule are revealing, because these entrepreneurs were better positioned to know the capacities of the Communist Party compared with other business owners who had not been so involved with the Party.

Table 4.6: Attitude Toward Communist Party Governance by Status in Party

	No Affiliation	Party Member	Former Party Cadre
Highly Favorable	0	17	0
Somewhat Favorable	38	17	0
Neutral	34	0	25
Somewhat Negative	19	50	75
Highly Negative	9	17	0
N Cases	44	6	4

Pearson 19, DF 8, significance =.01

Among those who derided the incompetence of the Communist Party were business owners who saw democracy as the solution.¹²⁰ A trader with whom I spoke had no respect for the Communists. He denounced Zhu Rongji, commonly perceived as

¹²⁰ Although conjecture regarding private business owners' potential support for democracy abounds, almost no studies exist in which entrepreneurs are systematically interviewed regarding their views towards political change. One possible exception is Wank, David L. "Private Business, Bureaucracy, and Political Alliance in a Chinese City." *Australian Journal of Chinese Affairs* (33 1995): 55-71, although it is not clear what percent of his respondents he interviewed regarding their "higher level" political beliefs; his study was also conducted immediately before and after the 1989 Tiananmen incident, which he reports inhibited respondents' openness on these issues. One researcher surmises that entrepreneurs' reliance on patronage from local officials means they would probably oppose democratization because it might force these officials out of office, Nevitt, 42-43. My data indicate that life experiences play a far more important role in entrepreneurs' attitudes toward democratic beliefs than short-term business calculations.

among the most economically savvy and capable of the Party's top leadership, calling him "a very stupid man." The trader objected to Zhu's overnight devaluation of the Chinese yuan from 8.4 yuan/dollar to 10.8 yuan/dollar. "This could only happen in China," he lamented. "I myself made a lot of money that night, but I think Zhu Rongji is stupid. If you had one million dollars, you would have made two million yuan in one night. I wanted to find a psychiatrist for Zhu Rongji after he did that," he said. "From this small fact, you can tell whether the leader is stupid or smart." Because he held the Party in such low esteem, he considered that when Deng died, the Party's hold on China might evaporate. "The regular people only have a so-so opinion of the top leaders," he explained. "There might be a total change in China like there was in Russia. Everything could change in two or three years," he speculated.

Some entrepreneurs favored democracy because they figured a democratic polity would govern better, would produce better policies. Democracies, according to these entrepreneurs, were better because they allowed open debate about policies, permitted people to choose from a range of policies and candidates, and made the government more responsive to popular demands. A Shanghai entrepreneur used the Taiwanese legislature as an example of the benefits of democratic process.

Although on the surface, the Taiwanese legislature looks bad, with the legislators punching each other out, actually it is good, because the legislators argue with each other. Whereas in China, the legislature simply agrees, "OK! OK! OK!" [*He gestures robotically with his hands, as though voting.*] They don't dare disagree with the government. Many parties are good, because then you have freedom of choice.

A clothing manufacturer argued that a democracy would produce better leaders. "People should understand who they're voting for; they should look at what a man has contributed to society. People should be nominated by all the people, not by the government. When people realize what their ballot means, then the vote will mean something. The common people have to become more educated so they understand what the vote means," he said.

A highly successful business owner espoused the Marxist belief that democracies serve the needs of the capitalist class, and for this reason, he advocated that China become democratic. "Democracy is the best system for capitalism. For example, if you look at Latin America, they aren't steadily democratic and they've had trouble economically. Authoritarian governments aren't good for capitalism because they're not sensitive to the needs of business."

Again using Marxist theory as a base for their beliefs, other entrepreneurs saw a link between China's economic changes, in particular the development of a private economy, and democracy. "The government controls the private economy very tightly because they know the government serves the economy, and if the economy is private, the government will have to become a democracy. The relationship between the private economy and democracy in the long term is very intimate," proclaimed a business owner in Shanghai. In this case, his contentions of the link between politics and economics go a step beyond Marx, in claiming that a private economies would necessarily give rise to a democratic polity.

Entrepreneurs who felt that China should or would become democratic associated wealthy countries with democratic politics, and believed either that China's growing wealth would drive a democratic transition, or that democracy was a necessary component for China's continued successful development. These entrepreneurs were much better informed about foreign countries than the typical entrepreneur. In speaking about China's political future, they analogized China to Russia, Taiwan, Singapore, or the U.S. A man who joked about running for office himself was typical of this group. "The government now is appointed by the center," he lamented. "This is no good. In the near future, this will change. People will elect people, maybe more like the U.S. than like Singapore. If I have enough money, maybe I will run for election -- just kidding. But

maybe private entrepreneurs will become involved in government because they love their country, for example, as mayors.”

The penchant for entrepreneurs of the Cultural Revolution cohort to question the status quo more than their fellow entrepreneurs in other age groups is again evinced when one looks at business owners who mentioned a desire that China become a democracy. Only entrepreneurs in the Cultural Revolution cohort spoke favorably of democracy (Table 4.7).

Table 4.7: Mentioned Desire for Democracy by Age Cohort

	Youngest	Middle	Oldest
No mention	100	73	100
Mentioned Desire for Democracy	0	27	0
N Cases	20	26	10

Pearson chi-square 9.2, DF 2, sig=.01

Given the small percentage of all entrepreneurs who spoke favorably of democracy (13%), it is important to keep in mind that these comments were volunteered in response to more general questions. I did not ask entrepreneurs directly about their view of democracy, believing that a direct question on such a politically sensitive topic would have alienated respondents and elicited meaningless replies. The total percentage of entrepreneurs who view democracy favorably is therefore quite likely to be greater than 13%.

To summarize, while approximately one-half of the private business owners I interviewed saw the Party as capable of governing the private sector, their assessment was based strictly on an evaluation of the performance of the Party regarding two crucial issues: social and political stability, and economic growth. Should the Party fail to deliver these crucial goods in the future, these entrepreneurs might well forsake the Party.

The remainder of the business owners did not even grant the Party this much, and were convinced that either the Party's basic nature would change, or that it would be ousted.

As for the distinctions among entrepreneurs with differing views, entrepreneurs who were better informed about the Communist Party (because they were Party cadres) or about the world outside of China (because they had traveled) tended to be more critical of the Party. Since domestic telecommunications are improving rapidly in China, and more and more Chinese, especially private business owners, are getting the opportunity to go abroad, the quality of information Chinese have about their own country and other countries is improving at a rapid pace. This indicates that as time passes, business owners may become more critical of Communist Party governance and even less supportive of the Party. Furthermore, those entrepreneurs with the most political training, the former Party cadres and Party members, were the most negative towards the Party. This group of cadre-entrepreneurs have a combination of traits which could become dangerous for the Communist Party: they have political skills, financial resources, and a harshly critical attitude.

The differences in views among age cohorts is also troubling for the Party. Those who are most eager to see the Communist Party changed or dismantled are those who are most likely to act on their beliefs. The Cultural Revolution cohort, in addition to being the most in favor of political change, are also the most politically interested and informed of the three cohorts. In addition, since they are now in their 40s and 50s, they have the social status and personal contacts needed for successful political activism. Thus while the overall picture of entrepreneurs' views toward the Party is not promising for the Party, a close examination of which entrepreneurs are most negative towards the Party reveals even more potential difficulties ahead.

BELIEFS ABOUT HUMAN RIGHTS

Though private business owners were often skeptical of the competence and future prospects of the Communist Party, they were nonetheless not supporters of anti-government demonstrations and street protests. They viewed this kind of political behavior as a threat to social stability.

In my conversations with Chinese business owners, I pursued two questions with respect to human rights: what they thought of the U.S. policy of linking Most Favored Nation status (MFN) to human rights, and whether they believed this kind of international discussion of human rights helped China in any way. These questions were an attempt to get at sensitive political issues through discussion of MFN, which is seen in China as an economic issue, and is therefore less sensitive. If the entrepreneur raised the topic of Tiananmen, I also asked his or her opinion of the protests and subsequent massacre in 1989.

Among all political topics discussed, entrepreneurs were in the greatest consensus on these questions. This section will first discuss the majority opinion: that human rights, as conceived of in the West, are inappropriate for China. Next, I examine the small minority of those interviewed (14%) who explicitly mentioned either that the U.S. approach to MFN and human rights was acceptable, or that this approach helped human rights in China in any way.

The majority of those interviewed felt that at present China did not need more human rights. To them, human rights involved giving more power to individuals. They felt that Chinese citizens did not have the knowledge, training, or experience to handle more power well. Therefore, they reasoned, with an illiterate population it is best both for individuals and for the collective to constrain personal choices. In particular, the business managers were concerned that if people had the right to organize against the

government or protest in the streets, civil order would break down. Because the respondents believe that civil unrest leads to poverty and food shortages, they felt this risk was not worth the benefits of more human rights. In all, 63% of respondents made at least one of the following three statements: “China’s human rights are okay”; “it is too soon for China to have more human rights”; or, “China’s human rights are improving” (not shown on Table 4.8). An additional 18% said that they did not care about human rights and MFN, or did not know about the issue, and voiced no other opinion (Table 4.8).

Table 4.8 Views Toward Human Rights

<u>Opinion</u>	<u>Respondents (%)</u>	(n cases=49) ¹²¹
China’s human rights are okay	43	
U.S. should respect China’s sovereignty	27	
China’s human rights are improving	24	
It is too soon for China to have more human rights	20	
Don’t know / don’t care, no further comment	18	
U.S. approach is okay / U.S. approach helps	14	
Don’t know, further comments given	6	
Don’t care, further comments given	6	

Note: The right-hand column is the percent of all entrepreneurs asked about human rights who gave each answer. This column does not total to 100 because respondents often gave more than one answer. Respondents were coded for up to four answers.

Human rights were thought of as an attribute of an advanced civilization, in the same way that certain activities are considered helpful for an adult but not for a child: “the whole issue of human rights for Chinese is premature,” said a young owner of a high tech firm. “Chinese don’t have enough education to do anything with rights. Giving human rights to Chinese is like changing the marriage law so that five-year-olds can get married. Five-year-olds won’t marry, so what’s the point?” he reasoned.¹²² Entrepreneurs seemed to think that human rights were not something that could be

¹²¹There are only 49 cases because nine people were not asked this question.

¹²²Interview 22.

granted by a government, but had to be earned by the citizenry and culture, currently too immature:

You have to look at the real situation in China; for example, lots of people in China are illiterate. If China had a high level of education, human rights would be okay. American law has developed over a long time. Everyone knows what it is, and how to behave. But in China it's not so clear. In China, when someone is arrested, the police don't know the role of the arrester, don't know how he's supposed to act, and the person arrested doesn't know the role of the arrested.¹²³

To extend human rights, in other words, the Chinese first had to develop their civic culture.

It was not just the illiteracy of the peasantry that made the entrepreneurs skeptical of human rights, everyday experiences with bureaucratism and petty politics also made them distrustful of the people's ability to assimilate new rights and corresponding responsibilities. A high-tech entrepreneur contrasted Western expectations with the experience of daily life in China to convey this point.

I have a cousin in the U.S. She's studying in San Francisco. She came back for a visit and we were going on a little trip and tried to get train tickets. They didn't have any tickets left, so I tried to persuade them to find a seat for us, and the ticket seller agreed. But when we tried to get on the train, the car steward wouldn't let us on. My cousin wanted to argue with the stationmaster, and I told her not to, that we should speak to the stationmaster politely, try to soften him up. But she insisted. So he kicked us out of the station! In China, you have to use Chinese techniques.¹²⁴

His point was that if Chinese cannot handle the leeway given them in the course of their daily work, they cannot be expected to handle additional freedom. More human rights meant devolving power to less responsible or capable people, most entrepreneurs believed.¹²⁵

¹²³Interview 68.

¹²⁴Interview 67.

¹²⁵The following is another example of this sentiment: "In 1989, when the people were agitating for human rights and so forth, China hadn't reached a level where that was appropriate yet. If rights had been given to the people, they wouldn't know how to use it. For example, if all the management were turned over to the workers, it wouldn't work. Human rights is the same thing. People's education hasn't reached that level yet. The gap is too large."

The business owners I spoke to felt that U.S. government suggestions about human rights were naive, given these circumstances. An ill-informed public coupled with high population density made seemingly innocuous issues into public welfare problems. In this context, two owners cited specific situations that required tighter government control in China than they might in other countries. One brought up the practice of urban residential registration, which the Chinese government requires for access to housing and jobs to reduce rural migration to cities. “Residential controls were started in the Qin Dynasty,” he said. “Americans no doubt think this is incredibly restrictive, that the government controls where people live. But it’s necessary for China’s conditions and has existed for thousands of years. Without it, China would be a real mess.”¹²⁶ He viewed this policy not as a senseless attempt by the government to dominate every aspect of people’s lives, but instead as a reasonable response to difficult conditions.

Another man defended a second restrictive policy he felt Americans would not comprehend: controls on household pets. The recent popularity of dog ownership has created problems in China’s cities. Because of tight living conditions, dogs caused urban sanitation problems. Their barking also disturbed people at night, reverberating through poorly insulated apartment buildings. “In China we have an issue now about pet dogs -- they waste all over the place. In America people will probably worry ‘why does China control dog ownership?’ But this is another example of how we don’t understand each other,” he concluded. The Beijing government initially responded to the situation by banning dog ownership, but that raised such public outcry that the city decided to require pet licenses instead.¹²⁷

¹²⁶Interview 78.

¹²⁷Interview 67.

This simple example conveyed a more significant meaning: if people cannot manage dog ownership without causing trouble for the community, how can they handle the right to voice political views publicly, to take to the street in protest, or to organize in opposition to the government? Because respondents believed the population was unequipped to handle more responsibility, they reasoned that individual rights would lead to political unrest. "Chinese society would be chaotic if everyone could agitate against the government. China is an illiterate nation. It requires a process. Western countries had this process for their development of human rights," reasoned a well-educated entrepreneur in his forties. One man engaged in a thought experiment in which U.S. leaders had to deal with the results of the policies they were advocating for China: "If American human rights were exported to China, even Clinton would have a hard time running the country. Excessive freedoms hinder people."

Though most people thought the U.S. and China had similar priorities for human rights, a few people did think that fundamental social tradeoffs were seen differently in the U.S. and China.

You haven't been to China's backward areas. For example, population control. Abortions are a very basic policy in China, but they are illegal in America. In the America, there are problems too, for example, guns. My wife lives in America with her mother. She says in America you say "control the people, not the weapons," but I think if you didn't let people run around with guns, there'd be a lot fewer murders, and it would be a lot safer. This is what the Chinese government considers basic living rights.

Further, because political freedoms lead to political unrest, and unrest in turn leads to destitution and misery, respondents inferred that political freedoms are incompatible with economic development.

In Yugoslavia, they have riots. China needs to avoid chaos. To avoid chaos, we can't have people running around doing crazy things politically. We need a stable situation. For example, if things are chaotic inside my company, it won't be able to develop. The same is true for China. China had one hundred years of chaos, war, and the Cultural Revolution. If you fight, you are poor.

Because of the chaos they envision if political rights are extended, the entrepreneurs view further political rights as, at best, pointless, and, at worst, self-defeating: civil rights are quickly violated by criminals when central authority breaks down, whether it be in the Cultural Revolution, the Los Angeles riots, or wartime Bosnia. One man pointed this out: “If China is chaotic, what kind of human rights is that?...”

If political rights lead to instability, and instability is not conducive to economic well-being, then China is faced with a choice between subsistence rights and political rights. This is the tradeoff the Chinese business owners see, and in my interviews, the entrepreneurs emphasized the relative importance of basic ‘human rights’, such as food and shelter, over political rights.

My opinion is that China has some human rights but not all, but it’s better than before Deng. If the common people can’t get enough to eat, ‘democratic rights’ are meaningless. There are still lots of Chinese who are very poor. Human rights are second; eating is first. One must get rid of poverty and ignorance; this is essential.

Once people determined that more human rights meant less material well-being, the level of poverty in China made concern for political and civil rights frivolous. “U.S. ‘human rights’ and Chinese ‘human rights’ do not have the same meaning. Young Chinese like the U.S. concept of human rights. But Chinese think eating is primary, worrying about letting everyone state their own opinion is secondary.” As another man stated succinctly, “Democracy is good, but having enough to eat is better.”

These attitudes would seem to present a bleak future for human rights in China. But in fact, the entrepreneurs have a more optimistic perspective, because they believe that as people become more highly educated, their ability to make reasonable social and political choices improves. Hence, as the population becomes more sophisticated, more rights become appropriate. Further, the education, urbanity, and sophistication of a

population increases as the society gets richer. Since the Chinese economy has been one of the world's fastest growing economy for the past fifteen years,¹²⁸ the business owners think China's ability to handle human rights is growing.

The entrepreneurs do see human rights as beneficial when they are suited to the character of the population. They understand the growth of human rights in China to be linked with China's entry into the society of developed nations. Since the civility of a people is primarily a function of education, and national education levels rise as wealth rises, poor countries with poorly educated people have a low 'quality'¹²⁹ population. Thus China is in a Hobbesian state where the government is needed to control people, while the U.S., with its higher 'quality' population, has need of a less controlling government.

It's not good to take one's own demands and foist them on another country. I haven't been to America, so I don't know a lot about your situation. I know you have lots of freedoms -- maybe too many freedoms -- but this is according to the high quality of the American people.

And since these business owners are Marxists, of a sort, for them expanded human rights are not simply more appropriate as China develops, they are inevitable.

China has five thousand years of history, with no freedom. Human rights in America are good, but it will take time for China to have such good human rights. Economic development changes people thoughts, and opens them. According to Marx, you have to change the economy before you can change people's thoughts. Until China has developed its economy to the extent of Singapore or Hong Kong, we won't have this level of human rights. The government can't order people to change their thoughts instantly. Fairness, equality, and freedom are good, but China had an emperor. Ultimately, China will be like the U.S. in human rights.

¹²⁸From 1979 to 1990 national income grew 13.9% per year compared with 5.9% per year from 1958 to 1978. Wong, Heady, and Woo.

¹²⁹*zhi4liang4*.

Though entrepreneurs anticipate more representation in the government, greater rule of law, and in some cases, democracy, they do not think China should have more individual rights *immediately*. The entrepreneurs, then, do not think that the establishment of human rights is a prerequisite to political liberalization and democratization. This is perfectly captured by one man who predicted that China would be democratic in six years. At the same time, when asked about human rights, he nevertheless said that China was not *at present* ready for more human rights. Naturally, I asked him how he could say that China will be democratic in six years, while asserting that China was not ready for human rights now. He answered that he believes the prerequisites for more human rights and democracy are swiftly coming into place in China:

China will change very rapidly when it does change. China is like a reservoir with a capacity of a billion cubic meters, that already has 999 million cubic meters of water in it. The last bit of water will fill it, and it will overflow. This is China's society now. Six years is a very long time in China.

Just as human rights are seen differently in China and the U.S., so too is political change. Americans anticipate that the American polity will remain stable because it has been stable for the past century. In the same way, some Chinese anticipate that in the future their polity may change rapidly because it has changed rapidly during the past century.

Another man who supported restricted human rights for the time being also thought that China would eventually become democratic. He reasoned that economic change will precede political change: "In Taiwan, they developed first, then became more democratic. First the economy will develop, then democracy will naturally arise in China."

Entrepreneurs were not just optimistic about future improvements in human rights, they also mentioned several examples of how human rights had already progressed in China. One man was quick to point out that despite all the publicity received by the Tiananmen massacre, dissidents are in his opinion treated far better than they were under

the previous government. "Human rights have improved greatly in recent years, even toward those people who oppose the government. Under Mao, they simply would have been killed." But he, too, was concerned about the population's ability to cope with more freedoms. "Too many human rights are not suitable to China's development level." The improvement in social freedom over the past decade also became evident in the process of conducting interviews. Several people commented that the ability to discuss political issues frankly with a foreigner was something new in China. "Before, everyone had a screen before their face and didn't ever tell the truth. But now people are opening up."

Further, the increase in legalism under Deng was seen as political development and an improvement in human rights. A young entrepreneur in Beijing emphasized this kind of progress:

The government does a lot of things people don't like, especially young people. But I wouldn't want to be China's president. China's too big. The leaders have really done a good job. In Chengdu¹³⁰ there was a private businessman. When his business was going slowly, no one bothered him. But when it started developing to a large size, the county government decided to replace him as head of the company with another guy. The businessman went to the administrative bureau with his case, and he won. He wouldn't have won in China before this decade. China uses this kind of Western law. This is why America should give China Most Favored Nation status.¹³¹

Feng Yilan, owner of a high-tech company, also mentioned formal channels as the way to influence the government. Though his position as a People's Representative¹³² was government-appointed, he nonetheless could use it to voice his own opinions.

China is big and poor. We will make it bigger and richer. Just like six years ago, I was very poor, but now I'm a millionaire. I'm a People's Representative and have the right to give my own opinion, to give serious, hard criticism to the government. I have these rights. There are just different understandings of human rights.

¹³⁰Capital of Sichuan Province.

¹³¹Interview 65.

¹³²The People's Congress and other corporatist organizations are discussed in detail in Chapter Four.

When judged by contrast to the past, political normalization was also seen as an improvement in human rights.

Interviewees were aware that their political news is censored, including news of government actions toward dissidents. But Communist Party cadres or former cadres, who have friends in the Party, had much better information than other respondents. One Party member brought up the case of Wang Juntao, a democracy activist who founded the Beijing Social and Economic Research Institute to discuss issues of political and economic reform. Wang was arrested in 1989. In 1994, he was released and exiled to the U.S., supposedly because he had health problems.¹³³

I don't know much about the human rights issues [*looks over at the workers in the office, smiling nervously*]. The Chinese government is slowly changing this. For example, Wang Juntao wanted to go abroad, and the Chinese government just let him go to the U.S.. Human rights issues are not reported in the Chinese papers. It was not because of his health that he was let go.¹³⁴

Improvement in human rights, like improvement in the literacy and material well-being of the population, was not a matter that could be solved instantly by government proclamation. Instead it was a "process": "It's like sending people to Mars. It will take a long time, but the task is in progress."¹³⁵

Because the differences of opinions among the majority of respondents were mostly ones of nuance and degree, those few people who expressed support for the U.S. approach are of special interest.¹³⁶ Unfortunately, it is hard to get a sense of what was behind their opinions. All emphasized the benefits of human rights; none linked human rights with political instability.

¹³³Chan, 4-5.

¹³⁴Interview 54.

¹³⁵Interview 68.

¹³⁶Do they share traits or experiences that account for their belief? Statistical analysis shows no discernible patterns differentiating these respondents from the rest of the sample. This lack of shared traits is understandable when one inspects the diversity of these responses. Independent variables include age cohort, sex, firm size, education, city, Party membership, travel, and quality of previous employment.

A man who had been self-employed for years, in many different trades, made the clearest statement of support: "I don't care if the country lets me say this or not, I want to anyway. Freedom of speech helps China. China must open up a lot more, so things can get better."¹³⁷ But others were vague and terse in their endorsement, possibly because the topic is politically sensitive. One wholesaler was nervous during the whole interview; he offered only a brief, enigmatic comment: "U.S. demands for human rights helps the common people, but the leaders don't care. *Q: How does it help the common people?* It is a pressure on the leaders."¹³⁸ A busy young executive devised an favorable opinion on the spot. "I need to think about this issue. Should the two issues [human rights and MFN] be separated? Well, if they are, the human rights issues will not be resolved. There are good and bad aspects of it. Good, if it's resolved, bad, if MFN is not passed."¹³⁹ If her reply lacked conviction, that of a well-traveled older man did not. "It's okay for America to link trade to human rights, and to make these demands on the Chinese government, but these demands have no influence on the behavior of the government! [*Laughs.*]"¹⁴⁰

In truth, this group is eclectic, ranging from the confused to the amused. Three people were hostile to the Communist Party leaders, but so were many others I interviewed who opposed the U.S. position.

A discussion of human rights in China inevitably brings to mind the massacre of protesters in Tiananmen Square in the spring of 1989. One of the motivations for this research project was to discover if the resources controlled by the new private sector could provide support for future political reform movements in China. Reports from

¹³⁷Interview 55.

¹³⁸Interview 53.

¹³⁹Interview 35.

¹⁴⁰Interview 28.

Tiananmen indicated that private business owners had played a role in the protests. The Flying Tigers, a group of private entrepreneurs with motorcycles, helped distribute pamphlets and information around Beijing, and carried injured students to hospitals after the massacre. The Flying Tigers were characterized by a Chinese student as “a motorcycle squad formed by Beijing’s nouveau riche, its young, swaggering private entrepreneurs,”¹⁴¹ and in a more sympathetic Western eyewitness’ description as “freedom-loving motorcyclists.”¹⁴² In Beijing, entrepreneurs donated generous sums to the protesters.¹⁴³ Wan Runnan, founder of the Stone Corporation, a private enterprise, was a high-profile donor to the student effort. After June 4th, he was removed as head of the company and fled to France. But such stories do not tell us whether the behavior of these few Beijing residents is indicative of the attitudes of the average entrepreneur.¹⁴⁴

Unfortunately, since Tiananmen is such a politically sensitive topic, it is difficult to discuss casually. I chose not to ask people about it unless they brought it up themselves. As a result, the Tiananmen events were only discussed with seven people. Because of the small sample, one can only hypothesize about the overall attitude of private business people toward Tiananmen. Two factors strengthen the credibility of the conclusions, however. First, the perspectives are remarkably alike. Only one of the seven diverged from the majority point of view. Second, the opinions on this topic, and

¹⁴¹Han Minzhu, ed. *Cries for Democracy: Writings and Speeches from the 1989 Chinese Democracy Movement*. Princeton: Princeton University Press, 1990, 258.

¹⁴²Simmie, Scott and Bob Nixon. *Tiananmen Square: An Eyewitness Account of the Chinese People’s Passionate Quest for Democracy*. Seattle: University of Washington Press, 1989, 144.

¹⁴³MacGregor, James. “Two Dissidents, Adept At Raising Money, Get Longest Terms Yet In Beijing Trial.” *Wall Street Journal*, February 13 1991; *Wall Street Journal*. “Computer Whiz Leads China’s Opposition: Wealthy Entrepreneur Tries to Generate Support, Funds,” 1989; Xiong Xiage. “Fall From the Throne: China Turmoil Topples Entrepreneur.” *Electronic Business* 15 (21 1989): 61-3.

¹⁴⁴This discussion is not meant to imply that the entrepreneurs who aided the students or participated in the protests did not exist or did not support the goals of the students. Moreover, the entrepreneurs I interviewed are not representative of the entire population of entrepreneurs in any precise or statistical sense. Yet, since the group interviewed in this study were not selected on the basis of their political activity or attitudes, they are more representative of entrepreneurs as a whole than those who emerge in accounts of the Tiananmen protests.

the underlying concept of human rights they reflect, match the opinions of the whole sample on human rights in general.

The dual concern for subsistence and order mean that Chinese businesspeople did not see the right to demonstrate or to oppose the government publicly as a precursor to a more liberal polity. Instead they believed these rights increased the likelihood of political upheaval, which is detrimental to economic growth and ultimately self-defeating, leading to even more restrictions upon human rights and political freedoms. Essentially, they saw dissidents who protested publicly as violating rules of political expression. Some comments had an undercurrent of feeling that these protesters were immature, irresponsible, and in some cases, disingenuous.

The history of Chinese Communist Party rule contains multiple episodes of political unrest, and the entrepreneurs I interviewed had lived through many of them. For a woman who started a clothing design firm in Beijing, foremost among these was the Cultural Revolution:

I'm not interested in politics. I didn't attend any activities in Tiananmen. I saw many people streaming through the streets to Tiananmen to do something, but I didn't know for what purpose, and neither did they. It reminded me of the Cultural Revolution, when I was a little girl. Everyone was saying things. I lost many things during those years. I was afraid another kind of Cultural Revolution was happening. I had never been to Tiananmen. I saw many soldiers pass my building. I thought it was happening because of something among the high-level officials. I thought if I participate in something, it should be for a purpose.¹⁴⁵

One can hear in her protest that she was not interested in politics a different message: a fervent desire for political stability.

The entrepreneurs did not disapprove of the protesters out of love for the Communist Party, as the preceding section attested. They felt that the approach taken, of protesting in the streets, of occupying the square, was too chaotic.

¹⁴⁵Interview 72. Names of business owners and/or other identifying information have been changed.

One man saw dissidents as undermining the government and therefore weakening its capacity to solve China's ills. He criticized Fang Lizhi, a physicist-dissident who was active in the democracy movement in the 1980s, who later fled to the U.S. and wrote a book entitled *Bringing Down the Great Wall*.¹⁴⁶ "Fang Lizhi and his ilk are not helpful to China -- trying to get people to oppose the government. It's bad; they should try to help the government solve the problems, not cause problems. Making the common people anti-government is not useful for China," he said.¹⁴⁷ This assessment of what dissidents like Fang Lizhi were actually doing for China show a sharp difference between common Western perceptions of human rights and the views of Chinese business owners.

Because of the sense of China's precariousness, people were suspicious of those who rocked the boat; they were suspicious of who the Tiananmen protesters were and what motivated them. A former university student recounted her experience: "I was in Beijing during Tiananmen. Some people were genuinely patriotic, but others were not patriotic. They just wanted to do some damaging things, not out of a desire for human rights. I myself had just graduated; I didn't participate because I was very busy writing my senior thesis."¹⁴⁸ A man in his early 40s echoed these sentiments:

I saw a lot of what was going on in Tiananmen even though I didn't participate, and I heard Voice of America. I thought a lot of people didn't support democracy, they were just opposing the government. Some of them were thieves, had been imprisoned, and were jailed, so they hate the government and want to cause trouble. From America, you can't understand this. Taking buses and tipping them over is not human rights. If people really want human rights, they have to go through formal channels.

When asked about the student protesters, who could not be construed as thrill-seeking criminals, this man was equally unsympathetic toward them.

They think they know everything, and actually, they have very little experience, so they are unwilling to listen to their parents or the

¹⁴⁶Fang Lizhi. *Bringing Down the Great Wall: Writings on science, culture, and democracy in China*. New York: Knopf, 1991.

¹⁴⁷Interview 77.

¹⁴⁸Interview 41.

government. The government warns them if they protest again, they will be arrested, but they don't listen, then they are arrested. They are eager to act, and are easily motivated, swayed by speeches they hear; then they act without thinking. They have no responsibilities: they demonstrate, then they go back to their dorm to sleep. Workers and others with families don't do this, because they have responsibilities. The students don't hate the government. They have relied on the government to let them go to school for all these years.

Despite his harsh assessment of the students' behavior, he had no trouble explaining why some entrepreneurs donated money to their cause:

Private entrepreneurs sympathized with them because they were young and reminded them of their children, so they gave them clothes, money, and food. Not because they supported them. Some private owners did give money because they agreed with what the movement wanted. Not all business owners had the same motives.

Ultimately, this man supported the government's decision to use force. "*Why did they kill all those people? Because they had no other way to control the chaos. They did it for the sake of stability in the whole country.*"¹⁴⁹

The opinion that opponents of government policy should work with the government, rather than try to disrupt it, was seen by another entrepreneur, a former state enterprise manager, as an outgrowth of China's political heritage.

The Chinese system is a function of its feudal history. Whereas the immigrants to the U.S. had experienced democratic systems in Europe, the Chinese have had only had the imperial system. In China, the model in popular movies is Song Dynasty Baogong -- good officials who treat the population well. Whereas in American movies, everyone is always very critical of the government. So people and the government in China did not understand why some students in June Fourth [Tiananmen] wanted to separate themselves from the government and push their own ideas. This is foreign to Chinese thought.

This entrepreneur explained private entrepreneurs' support for the students in the same way as did the man in his early forties. "There were state enterprises supporting students too. It was out of sympathy, not because they agreed with them -- they saw the students

¹⁴⁹Interview 49.

out there in the sun and rain with no food, so they brought them food, gave them some money," he explained.¹⁵⁰

Another man who had close connections to dissidents and was very negative toward the Communist Party in general, nevertheless attributed the students' opposition to government policy in part to their career concerns.

It's true that college students participated in Tiananmen because they weren't happy that uneducated workers were making more than them, but the situation has now changed because the pay difference has decreased. People have recognized the usefulness of highly educated people and their pay has gone up. Now college students support the reforms. Because of Tiananmen, the government has to pay attention to the problems; the realization entered their hearts that they had to continue with the reforms.¹⁵¹

Although, as these comments reveal, this man was sympathetic to the Tiananmen protesters, he did not support them entirely. Only one person I spoke with supported the demonstrations wholeheartedly -- and she too connected the protests with instability.

In the local area, everyone participated in June Fourth [Tiananmen]. They went out on the streets, and marched to the government offices to complain about corruption. If China was democratic, maybe it would be a bit chaotic, but I'm not afraid. You have to get rid of these things then you can develop. To change society, you need a bit of instability.¹⁵²

Placed on a spectrum of possible beliefs, from wholehearted support of the protests to utter condemnation of them, the tenor of these comments -- skepticism about the motives of the protesters, joined with a recognition that the protests were also a manifestation underlying problems in China -- are quite close to official state pronouncements. One might wonder whether these unfavorable interpretations of the Tiananmen protests were therefore simply a mindless recital of accounts in the state-controlled media. Some aspects of the official version of the events were, in fact, reflected in entrepreneurs' comments. For example, the students were criticized in the

¹⁵⁰Interview 30.

¹⁵¹Interview 7.

¹⁵²Interview 75.

People's Daily for "immaturity and superficiality," and official reports developed the theme that China was not yet prepared for American-style political rights:

They don't understand that China, with its long feudal traditions, underdeveloped economy and alarmingly high literacy rate, has a long way to go in bringing about highly developed democracy and that, therefore, only initial steps should be taken in this regard. Grafting Western-style democracy to the Chinese reality is but a fantasy.¹⁵³

Several key elements of the official press analyses were not raised by anyone interviewed, however. For example, the Party's central contention was that the Tiananmen movement was engineered by a small coterie of conspirers whose aim was to overthrow the Party. "Most of the students were unaware that from the very beginning their good intentions were shaped to the ends of a handful of conspirators whose goal is to negate the leadership of the Chinese Communist Party," proclaimed the *People's Daily*.¹⁵⁴ Private business managers also resisted the state's efforts to portray the soldiers and police who participated in the massacre as "heroic," and those who died as "martyrs."¹⁵⁵

Entrepreneurs also rejected the claim that the protests' anti-corruption slogans were insincere, mere attempts by the counter-revolutionary circle to fool ordinary people. This assertion was made by Deng Xiaoping himself.

What we face is not simply ordinary people who are unable to distinguish between right and wrong. We also face a rebellious clique and a large number of the dregs of society, who want to topple our country and overthrow our party... their goal is to establish a totally Western-dependent bourgeois republic.... The so-called anti-corruption slogans raised by people with ulterior motives... are just a front: the heart of these slogans is to topple the Communist Party.¹⁵⁶

¹⁵³*Renmin Ribao (People's Daily)*, quoted in *China Daily*, June 23, 1989, Beijing, in Oksenberg, Michel, Lawrence R. Sullivan, and Marc Lambert, ed. *Beijing Spring, 1989: Confrontation and Conflict: The Basic Documents*. Armonk, NJ: M. E. Sharpe, Inc., 1990, 389.

¹⁵⁴*Renmin Ribao (People's Daily)*, in Oksenberg, 388. See also "State Council Spokesman Yuan Mu Holds News Conference." Beijing Television Service, June 6, 1989; FBIS, June 7, 12-19, in Oksenberg, 363-4.

¹⁵⁵Deng Xiaoping, "June 9 Speech to Martial Law Units." Beijing Domestic Television Service, June 27, 1989; FBIS, June 27, 8-10, in Oksenberg, 377-8.

¹⁵⁶Deng in Oksenberg, 377-8.

A high-school-educated petty trader I interviewed in Beijing denied this interpretation explicitly:

Tiananmen happened because the government was corrupt. There is less corruption now than there was before Tiananmen. My family went to Tiananmen too. We did it just to watch the spectacle, and most people we knew did it for this reason also. We sang some songs, then went home.... Most of our friends' kids went home too, because the demonstrations lasted too long a time. The government should not have shot the kids, though.¹⁵⁷

As one can see from her description, this entrepreneur was a Tiananmen participant, but not of the type portrayed in either the Western or Chinese press.

From interviewing people of various backgrounds, one can see the government control of the Chinese press influences who knows what about sensitive events such as the Tiananmen protests. But in this case, at least, the control did not seem to influence their attitudes. People with more information had more nuanced opinions, but the essence was the same. In general, Chinese were very aware of the limitations of their press coverage, and this did influence the certainty of their beliefs. Most people who voiced conviction about the Tiananmen protests had first-hand experience or access to non-Chinese media, such as Voice of America. Others prefaced their statements with comments such as, "this is not discussed in the newspapers."¹⁵⁸

Although the entrepreneurs' attitudes toward human rights and Tiananmen were similar to those in the press, the interview material supports the conclusion that these opinions were nevertheless well thought out and deeply held. The respondents presented their opinions through examples from their own lives. People gave analogies or discussed specific issues that were meaningful to them. Most importantly, on other issues, discussed earlier in this chapter, such as the Communist Party's performance, and

¹⁵⁷Interview 59.

¹⁵⁸Interview 24.

China's political and economic future, business owners disagreed with each other and with the official view. Only on this issue were they in strong agreement.

CONCLUSION

This chapter has examined the political beliefs of private business owners. In doing so, it has demonstrated that the Party failed to carry out two of its primary goals with regard to the private business owners. First, because Party propaganda was out of sync with the entrepreneurs' personal experiences, it failed to inculcate business owners with its official stance on their role in Chinese society and their future development. Furthermore, the Party's attempts to reap the economic and social benefits of the private sector while retaining its communist heritage destroyed the coherence of Party ideology. Second, because the Party was unsuccessful in convincing many business owners that it was competent to lead an economically reforming China, the Communist Party failed to maintain its own prestige and legitimacy as sole ruler.

What are the implications of these failings? Scholars have noted the disintegration of Communist Party cells in rural areas which accompanied the return of private farming and the collapse of the commune in the late 1970s and early 1980s.¹⁵⁹ The findings of this chapter indicate that a similar change occurred in urban China. This change was not, on the whole, caused by private business owners, just as the change in rural areas was not caused by private farmers. Rather, the emergence of private farming and private business and the weakening of the Party were common results of the economic reform in China. In rural areas, the introduction of private farming meant that the primary function of Party officials -- namely, to manage communes -- was rendered obsolete.

¹⁵⁹Pei, Minxin. *From Reform to Revolution: The Demise of Communism in China and the Soviet Union*. Cambridge: Harvard University Press, 1994.

In urban areas the shift in cadres' roles was not as sudden nor as extreme. Yet, the dominant emphasis of Party leadership on market-driven economic growth channeled the efforts of Party cadres away from political work.¹⁶⁰ Moreover, the tremendous wealth created by the economic reforms, including the wealth created by private firms, distracted cadres from carrying out the tasks of the Party. The wealth created by the economic reforms distracted cadres by redirecting their attention from their superiors towards the new sources of wealth, whether they were their own or relatives' businesses, township and village enterprises, or private firms. Furthermore, the ideological confusion sown by the Communist Party's endorsement of "getting rich," and the subsequent success of private business owners, who were capitalists in all but name, undermined cadre morale. The findings of this chapter, along with the reports from rural areas, make it evident that the Party has been incapable of retaining its internal strength during these radical changes in its governing teleology.

Furthermore, analysis of variation among entrepreneurs' beliefs indicates that those entrepreneurs who are most hostile to the Communist Party are those who are most informed about its internal functioning (Communist Party cadres), or who can best compare Communist Party governance with other polities (those who have traveled abroad). The finding that more political information leads to more negative views of Communist Party rule bodes ill for the Party, given the massive inflow of information that continues to accompany economic reform and growth. A second result, that the Cultural Revolution cohort is more hostile toward the Communist Party is also

¹⁶⁰Scholars have disagreed as to whether the extent to which an association's budget derives from its business-owner members dictates the extent to which it becomes captured by them. Nevitt argues this support is irrelevant, 28-9; Unger argues that more support makes the association more independent from the government and therefore more likely to become an advocate for private entrepreneurs (Unger, Jonathan. "'Bridges': Private Business, The Chinese Government, and the Rise of New Associations." *China Quarterly* (147 1996): 795-819, 817). Neither note that the requirement and opportunity for associations to run their own businesses is incredibly distracting from their purported institutional function. With the widespread commercialization of what are not normally commercial endeavors (from the military to research institutions), one must anticipate a redirection of organizations' talents, energies, and competencies away from their original missions.

significant, because these women and men in their 40s and 50s are best poised in their life cycle for political participation. These results together also undercut the oft-made supposition that it is business owners' economic position that determines their political beliefs and behavior.

These results notwithstanding, while speculating on entrepreneurs' future political involvement, it is crucial to keep in mind that, on the whole, they are not democrats. Close examination of their views on free speech, assemblage, and protest indicate that they are in strong agreement with government propaganda on these issues. Whether or not these opinions represent "false consciousness" is to a certain extent a moot point: until the entrepreneurs are convinced otherwise, these views stand.

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CHAPTER FIVE: PRIVATE FIRMS AS POLITICALLY SHELTERED ENTITIES

In addition to influencing Chinese politics through engaging the state and its agents, as described in the preceding chapters, private firms also influenced politics because they were a shelter from the state. In this chapter I show how the private firm was an important breach in the Communist Party's system of political control. The Chinese Communist Party has traditionally preferred to enforce social and political policies through its own organization rather than relying on government agencies for this enforcement. Typically, new policies are implemented and old policies are enforced through Communist Party networks in work units and residences, and through the Party's mass participatory organizations. The Communist Party historically used the enterprise as a locus of political monitoring and control. In this chapter, I argue that private firms did not replicate this political function. I show that the Communist Party failed to establish its networks within private firms, leaving private entrepreneurs and their workers outside the system of work unit controls. Next, I examine the participatory organizations the Party has deployed to incorporate private business owners politically. I argue that the Communist Party has been ineffectual in its attempt to establish these mass participatory organizations to implement and enforce policies with regard to private entrepreneurs and their firms.

Combined with the lack of workplace-based Communist Party networks, the ineffectuality of these organizations means the Communist Party has failed to incorporate private business owners into its apparatus of social and political control. Private enterprises have therefore become institutions in which individuals are partially sheltered from the Chinese state. In the final section of this chapter, I look at one result of this situation: that private businesses became havens for political dissidents.

To understand the significance of the lack of meaningful Communist Party presence in private firms, it is important to first understand its role in state-controlled enterprises, because the state enterprise was a crucial element in the Communist Party's political dominance of Chinese society. The Party used its organization in these enterprises to elicit political compliance from the majority of workers and to punish the minority who dared to oppose the Party, however trivially.

The Communist Party maintained a network of cadres in each large state enterprise that carried out surveillance of workers' political behavior.¹ This surveillance was accomplished formally through regular small group meetings in workshops, in which "problematic" comments were reported to the Party branch. It was also accomplished informally, through the reports of ordinary workers regarding the actions and speech of their co-workers. The Party staff in the enterprise maintained a political dossier on each employee, in which such reports were noted. This permanent dossier, which workers were not allowed to read, also contained information about the class background of the employee and the political history of his or her family members.²

In addition to the Party apparatus, each large factory was also staffed by members of the state Public Security Bureau. Public Security staff encouraged workers to report comments made by their peers in private, including political jokes, complaints about bad food, or criticisms of current policies. To ferret out transgressors, the Public Security agents had the right to interrogate workers' friends and relatives, place surveillance on

¹In smaller enterprises, political behavior was less rigorously controlled because the enterprise had fewer rewards to disburse, the Party did not have an organized presence, and the work force was more transient. Walder, Andrew G. *Communist Neo-Traditionalism: Work and Authority in Chinese Industry*. Berkeley: University of California Press, 1986, 144-5. But for these reasons, work in larger enterprises was more desirable from an economic standpoint.

²*Ibid.*, 90-91.

their homes, and in the worst cases, send people they deemed guilty to prison or “labor reform” camp.³

Political behavior played an important role in workers’ job evaluations beginning with the 1957 Anti-Rightist Campaign. Workers were compelled to attend meetings where political campaigns were discussed. In these meetings, workers could not sit passively, but were required to participate actively.⁴ Political participation, though, was often a double-edge sword, involving betraying one’s peers or family members and denying obvious truths. For example, to advance in a state enterprise, one had to defend the Party during the Hundred Flowers Campaign, support the Great Leap Forward, and deny the occurrence of the subsequent famine.⁵ Political conduct outside of work also influenced bonuses, pay raises, and promotions. Casual comments made to friends after hours could be taken as indicators of opposition to the Party. Workers’ class labels also played a significant role in their treatment at work. In this way, workers were castigated for the acts of their parents decades earlier.

The factory leadership was interested not only in workers’ behavior with regard to the Party and its campaigns, but also with regard to its moral standards. Workers received mild punishment for slacking off at work, but severe punishment for offenses involving sexual impropriety or cheating.⁶ Though workers were never fired for bad work, unmarried women were sometimes fired for becoming pregnant.⁷

The power wielded by the work unit over every aspect of employees’ lives was tremendous. If workers’ behavior was deemed inappropriate, supervisors had many opportunities to punish them. Shop floor supervisors evaluated workers for raises, supported or undermined requests for housing, reported infractions or ignored them.⁸

³Ibid., 92-95.

⁴Ibid., 144-5.

⁵Ibid., 136-7.

⁶Ibid., 140-141.

⁷Ibid., 143.

⁸Ibid., 160.

Ranking enterprise officials could grant or deny permission to marry, have a child, or divorce; they also typically controlled access to health care and schooling.⁹

This workplace system was at its height during the 1950s and 1960s. After the Cultural Revolution, many workers and Communist Party cadres felt betrayed by the Party and lost interest in political campaigns. Deng Xiaoping also disavowed the use of mass mobilization campaigns as a standard technique of governance, which meant that the political mobilization aspects of this system fell into disuse during the 1980s and '90s. Though its importance was diminished, this system was reactivated from time to time, for example during the anti-spiritual pollution campaign in 1983 and following the Tiananmen massacre in 1989.¹⁰ Communist Party control of the workplace also continued to be used as a weapon against dissidents through the 1990s.

The advent of private firms in China contributed to political liberalization by undermining this pernicious system. Even the largest private firms had neither Communist Party nor Public Security presence. Though Party members and former cadres did sometimes work for or own private firms, no party member or former cadre I interviewed ever attended Party meetings, much less actively conducted Party work. Most did not even pay their obligatory Party dues, and some even told me that they had forgotten they were a member of the Party. Thus, workers and bosses in private firms eluded this powerful system of political control.

This absence of political control was evident even in my interviews with employees in state and private firms. While the employees of private firms could speak freely to me about their political beliefs, employees of state firms were not allowed to

⁹Lieberthal, Kenneth. *Governing China: From Revolution Through Reform*. New York: W. W. Norton, 1995. 179.

¹⁰*Ibid.*, 142-3.

express their own opinions to a foreigner.¹¹ One private business owner told me that his main motive for starting a private firm was to escape the political harassment he had been subject to in the state factory. He had become “sick of being criticized as a ‘tail of capitalism’,” and being told he was “traveling on the capitalist road” at his former job.¹² (Children of capitalists were termed “tails of capitalism.”)

In addition to the direct effect on private sector workers was an indirect effect on the workers in state enterprises. The development of the private sector meant that state enterprise employees might be able to find alternative employment, no matter how bad the reports in their secret dossier. The coercive power wielded by the Communist government was thus diminished.¹³

Furthermore, as the reforms progressed, the private sector began supplying goods and services which had previously been exclusively controlled by the state. This weakened the capacity of state enterprises to reward or punish workers, reducing its ability to elicit politically correct behavior. In the early 1980s, “luxury” items that had

¹¹Interviews 75, 84, 93. Francis discusses the replication of some features of the state-owned work unit in private enterprises, in particular the benefits package of housing, medical care, and retirement insurance. In a brief section she discusses attempts by local government to have private enterprise managers supervise the behavior of their employees with regard to traffic tickets, family planning, and criminal behavior. She claims that managers were pressured by threats to the firm’s government loans, contracts, and licenses (Francis, Corrina-Barbara. “Reproduction of Danwei Institutional Features in the Context of China’s Market Economy: The Case of Haidian District’s High-Tech Sector.” *China Quarterly* (147 1996): 839-859, 855-856). These conclusions are based on interviews at only 11 firms, however, and the author’s inclusion of the Stone Corporation as a private firm calls into question whether the sample is really of private firms. The Stone corporation was begun by a group of five individuals as a private firm, but had been completely taken over by the government by 1989. It was referred to by private entrepreneurs I interviewed as a firm that was private in name but state-owned in fact, in contrast to the far more common case of being state-owned in name, but private in fact (interviews 60, 7, 75. Also, Denis Fred Simon, in personal communication). No entrepreneur I interviewed mentioned being asked or pressured into supervising their workers by government officials. In a related discussion, Unger describes the utter failure of the Beijing Self Employed Laborers’ Association to require its petty entrepreneur members to attend political study sessions, although again the sample size is very small (3 formal interviews, plus more than 12 “guerrilla” interviews) (Unger, Jonathan. “Bridges’: Private Business, The Chinese Government, and the Rise of New Associations.” *China Quarterly* (147 1996): 795-819, 804). Associations are discussed at greater length below.

¹²Interview number withheld.

¹³The likelihood that a given worker could find employment in the private sector varied based on his or her marketable skills and work habits. An unskilled worker or one with bad work habits would be unlikely to leave the state enterprise. These workers might therefore continue to be subject to more coercion. I thank Marcus Kurtz for this point.

been scarce (and therefore often available only to the political upper class), such as fruits, cigarettes and appliances, became widely available for purchase. In the 1990s, housing began to be sold on the market (often by foreign-state joint ventures). Private schools also began operating in the '80s and '90s. By 1992, for example, Beijing had over 400 privately-run schools, offering foreign languages, accounting, and computer classes, among others.¹⁴ Thus the growing market economy, of which private firms were a central component, reduced the state's coercive power by ending its monopoly on essential goods and services.¹⁵

Thus, not only were private firms not a part of the Communist Party's system of work-unit-based political monitoring and control, their presence in the economy undermined the power of the system in state- and collective-enterprises. Given that work-unit based controls were essentially nonexistent in private firms, did the Communist Party recover some of this lost political power through the development of compulsory mass organizations for private business owners and their employees? In the following section, I show that this was also not the case, by taking a detailed look at the functioning of mass participatory organizations from the private entrepreneur's perspective.

PARTICIPATORY ORGANIZATIONS AND SOCIAL CONTROL

As the private economy developed in the 1980s, the Chinese government brought private business owners into existing organizations and set up several new organizations for the purpose of incorporating the private sector into the Communist Party's system of

¹⁴*Xinhua Xinwenshe* 22 May 1993, printed in FBIS May 22, 1993, 54.

¹⁵Young has also noted that Chinese have more freedom in their lives since the rise of the non-state sector has ended the state's monopoly on goods and services, "Evolutionary Change," 110-111. Gold, "Urban Private Business," similarly notes that private entrepreneurs' access to scarce resources threatened Communist Party cadres' allocation of these resources, a key source of cadres' power, 175.

social control.¹⁶ Some private business owners were selected as representatives to existing mass participatory organizations, such as the People's Congress (*Renmin Daibiao Dahui*) and the People's Consultative Conference (*Zhengxie*). New organizations expressly for business owners included the Private Enterprise Association (*Siying Qiye Xiehui*) and the Private Enterprise Friendship Association (*Siying Qiye Lianyi Hui*).

These institutional changes were enacted to accomplish multiple tasks. Inclusion of some private business owners in representative organizations was presumably for the purpose of co-opting owners of larger-scale private businesses by giving them a political voice, or the appearance of a political voice, and by awarding them the prestige of official Communist Party recognition. In my conversations with business owners, it became clear that there was a hierarchy among the participatory organizations, and that higher status individuals were appointed positions in the higher status organizations. At the top of the prestige heap was the People's Congress, which included representatives from most parts of Chinese society. Next was the Consultative Conference, which was limited to "United Front" elements: private business owners, overseas Chinese, intellectuals, and members of other political parties. A step below these two bodies were the associations and federations, with the more "important" private entrepreneurs gaining posts at higher geographic levels -- district, city, provincial, or national, in order of increasing importance.¹⁷

The Private Business Association and similar organizations set up explicitly for private business owners had three basic political functions: to convey government policy

¹⁶In interviews with officials at Beijing's Self-Employed Laborers' Association, Unger reports that these officials often stated their Association was supposed to serve as a surrogate work unit for its members. Unger, 800.

¹⁷Unger similarly noted in Beijing the tendency for owners of larger private business to be members of the city-level Industrial and Commercial Federation, while owners of smaller firms belonged to district-level sub-branches. A district-level official he interviewed admitted that owners of larger companies tended to look down on the district-level branches, 811.

to members, to relieve the state of some of the burden of policy enforcement by encouraging entrepreneurs to police themselves, and to convey members' opinions to the government. Conveying members' opinions to the government provided the government with valuable information about the private sector, allowing the government to adjust policies to suit its goals, whether they were to maximize tax revenues, to maximize growth of the private sector, or to eliminate unwanted behavior by private firms. Ultimately, all three functions served the state's interest in social control by monitoring the opinions and behavior of private business owners and seeking to make those opinions and behaviors conform to Party policy.

In this section I demonstrate that the Communist Party failed in its effort to use mass participatory organizations to exert political control over business owners. This result may not seem surprising given the conclusions of the preceding chapter, which documented the ways in which private business owners gained influence through market-related institutions. Though entrepreneurs did not act through organizations designed with the intent to channel or create political participation, they nonetheless did influence political outcomes. In this section I examine entrepreneurs' interactions with such "participatory" institutions. Given the *indirect* influence entrepreneurs were shown to have on policy in the previous chapter, one might expect that these participatory institutions, designed to facilitate *direct* communication between entrepreneurs and local and national government, would provide an even larger avenue for business owners to influence the government. One might imagine that business owners have co-opted these organizations, converting them into institutions which primarily represent their own interest to the government, rather than the reverse.

Because the participatory organizations had the task of collecting entrepreneurs' opinions and complaints in addition to their policy propagation and enforcement roles, the organizations had something of a dual nature. Though they served the state in

controlling entrepreneurs, at the same time they served entrepreneurs in representing their interests to the government.¹⁸ An official of the Shanghai Private Business Association I spoke with described his role in this way, "I am on the one hand a representative of the government and party, on the other hand a representative of the private entrepreneurs."¹⁹ The defined tasks of the organizations and the pronouncements of officials tell us little about the actual functioning of these groups, however. For example, how do entrepreneurs view these organizations? Do they find them useful or not? Do some entrepreneurs get more from them than others? The answers to these questions reveal whether entrepreneurs succeeded in shifting the groups' focus from representing the interests of the state to representing the interests of private business.

In this section I will argue that, on the whole, entrepreneurs did not convert these participatory organizations into vehicles with which they influenced the government. Some entrepreneurs viewed these associations favorably, finding them useful in providing policy information, some political voice, personal and business social status, and a bit of help with minor issues like locating real estate, workers, new customers, or supplies. But the majority of business owners were neutral or somewhat negative towards these associations, viewing them as relatively powerless agents of the government.²⁰

Why have entrepreneurs, who provide the dues that in part pay the salaries of the officials, not succeeded in co-opting these organizations? Unlike the market-related

¹⁸Margaret Pearson has referred to them as 'Janus-faced' for this reason.

¹⁹Interview with an official at the Private Enterprise Association.

²⁰Recent studies have examined the activities of a few of the organizations discussed here, but no studies have interviewed meaningful numbers of their purported membership in any depth regarding their views toward the organizations. Unger focuses on the perspectives of government officials in assessing three organizations in Beijing, one for individual entrepreneurs (Self-Employed Laborers' Association), one for private business owners (Private Enterprise Association), and one for larger marketized firms of all ownership types (the Industrial and Commercial Federation) He also includes comments from some members. Nevitt looks at the Self-Employed Laborers' Association and the Industrial and Commercial Federation in Tianjin. He conducted opinion surveys of their members, carried out by the Tianjin Academy of Social Sciences, but he provides only a couple of summary statistics. I discuss some of his findings below.

institutions discussed in the preceding chapter, which are new institutions and are at the periphery of Communist Party interests, institutions of political participation sit at the center of the Party's competence and concern. Historically, the Chinese state has excelled at using Party-controlled mass organizations to convey and implement policy; this mode of policy implementation is, after all, one of the hallmarks of a Leninist state.

When seeking to understand why these groups have not been co-opted, one also has to consider that the Communist Party leadership is particularly attuned to organized opposition to the state, and fierce in suppressing such opposition. While today it is nominally legal to think and say the Communist Party should not rule China, *organizing* against the Party (which would probably include publishing such views) is considered a counter-revolutionary activity, punishable by lengthy imprisonment or death. For this reason, the Tiananmen protests and dissidents like Wei Jingsheng elicited a harsh response from the state. In contrast, the incremental, indirect transformations of political institutions described earlier in this dissertation evoked a mild reaction or none at all from the state, though their long term impact may be more profound.

In this section, I look first at those entrepreneurs who found the associations useful, detailing which entrepreneurs found them useful, and for what. Next I turn to the majority of respondents who did not find them especially helpful, to understand why that is the case.

The few entrepreneurs who described how participatory organizations provided them with meaningful political voice reserved their highest praise for the two representative bodies that include both entrepreneurs and non-entrepreneurs, the People's Congress and the People's Consultative Conference.²¹ This is because these two bodies

²¹The People's Congress has representatives from all parts of Chinese society, selected by the CCP. It primarily rubber-stamps decisions made by Communist Party leadership in the CCP Politburo and State Council, though in the late 1980s and 1990s it showed signs of more independence, with a minority of the members occasionally voting against decisions handed down from higher levels. See O'Brien. The

were, at least nominally, established to provide counsel to the government. A businessman in Shanghai saw his position in the People's Congress as an opportunity to give the government feedback which would be taken seriously. "I am a People's Representative and have the right to give my opinion. I have the right to give candid, hard criticism to the government."²² I asked him whether any criticism he had offered had resulted in new government policy. He felt suggestions he had made about correcting unfair tax rates and competition in Shanghai were heeded; "I believe my contribution was reflected in some lines in the resulting government report about the need to support private businesses," he said.²³

Another entrepreneur I spoke with in Shanghai was on the Standing Committee of the Consultative Conference for the Pudong Special Economic Zone, representing private enterprises in science and technology. He was quite certain that the organization influenced policy. He had seen immediate results from their discussions of policies, stating that "if someone makes a complaint and it is not resolved this year, it will be resolved next year." An example he gave me of the influence of the Conference concerned a proposal to speed the development of private businesses in the Huangpu area. "We wanted to have a Private Business Center, to encourage private enterprises. We thought it would be more convenient for customers, and the enterprises could rent in smaller increments," he explained. The result was positive, "the leader of Huangpu District agreed with our proposal, so now there will be an area reserved for private businesses."

Chinese People's Consultative Conference (*Zhengxie*) is part of the United Front Department (*Tongzhanbu*), whose members include pre-1949 business owners, overseas Chinese, members of other political parties cooperating with the CCP -- in particular the Democratic Party (*Minzhu Dang*), intellectuals, and private business owners. Representatives are also selected by the Communist Party.

²²A "People's Representative" is a representative to the People's Congress.

²³Interview number withheld. Identifying details of interviewees and their businesses have also often been changed.

Though most people felt the organizations exclusively for private business owners did not have a meaningful influence on policy, one private entrepreneur in Hangzhou felt they were quite useful. He explained that officials from the Tax Bureau and the Industrial and Commercial Bureau attended meetings of the Association where they listened to the private entrepreneurs' proposals. "The entrepreneurs give them a lot of suggestions, about taxes being too high, about how to simplify the process of registering their businesses," he said. He expressed confidence that this advice would be taken, "these problems will be resolved. More people complain on the same topic." He also gave me several examples of policy changes that he felt had originated with the business owners in the Private Enterprise Association:

Before, it was forbidden for private enterprises to cooperate with foreign businesses. We complained and now we can. Before, the government had no intention of setting aside land for private businesses, but now they are thinking about it, and this is because the business owners gave these suggestions. Private entrepreneurs are wealthier now, so we want to buy houses, but real estate is controlled. Two years ago this was unimaginable, but now the government is thinking of establishing a private business area.

I mentioned to him that many people had told me that the Private Business Association was not useful in solving big problems. He felt that this was due to variation in local governments' attitudes toward private business. They had, as he put it, "different understandings of government policy," resulting in varying responsiveness of the local branches. According to him, associations in other parts of Zhejiang Province were even more responsive than Hangzhou's.²⁴

A Beijing businessman was similarly enthusiastic about the role of the participatory associations for private business owners, "the cadres don't just listen, they take the initiative to actively ask us what our problems are," he said. His explanation for their attentiveness was familiar, "the government doesn't give any loans to private

²⁴He mentioned the Associations in Suzhou and Wuxi as being especially helpful. Interview number withheld.

entrepreneurs, yet they provide a huge sum in taxes, and employ, nationally, two to three million people. If the government had to provide welfare support for these people, it would cost them several trillion yuan. It's no wonder the government supports private entrepreneurs ,” he asserted.²⁵

In addition to enabling entrepreneurs to present their views to government officials in face to face meetings, the participatory associations also provided a public platform for them. Entrepreneurs took advantage of their official positions to announce their needs. For example, at Guangdong's annual session of the Political Consultative Conference, the vice chair of the Industrial and Commercial Federation (*Gongshang Lianhehui*) announced that the Federation wanted the government to eliminate the irrational limits on the private economy, liberalize credit policy, and simplify the process for owners of private firms to go abroad to study foreign market conditions.²⁶ In another instance, a magazine article covered the “bold announcement” of a private business owner newly elected to the Shanghai People's Consultative Conference. The new representative had declared that the government should permit private entrepreneurs to purchase small scale state-owned enterprises. The article reported that “this proposal has already stimulated high-level government scrutiny.”²⁷

Despite the strong views of these few entrepreneurs, their opinions were unusual. Overall, very few entrepreneurs felt as though these organizations gave them a meaningful political voice. Only 10% of those asked about the organizations mentioned that they were useful in expressing the problems of the private business owners to the government, and only 8% thought they were capable of solving major problems for entrepreneurs. Most people who felt they were useful saw them as being useful in small ways. For instance, a few people mentioned one of the official goals of the associations

²⁵Interview number withheld.

²⁶Qiyejia Cankaobao, 1993a.

²⁷Qiyejia Cankaobao, 1993b.

-- helping them understand government policy better. Other business owners cited help finding customers or employees, or locating real estate. The Industrial and Commercial Federation in particular was useful in that it acted in part as a government bureaucracy, processing requests for bank accounts or permission to travel abroad.²⁸

The most often cited benefit of these associations, mentioned by over one-quarter of those interviewed, was unintended by the government -- building networks among entrepreneurs. The development of such networks could have important political consequences. Social mobilization theory posits that the likelihood of a group with shared interests to mobilize for political action depends on whether they are linked through personal connections and whether they have access to resources. Entrepreneurs share many interests and control sizable resources; establishing personal bonds among them increases their ability to organize politically. In Charles Tilly's contribution to the theory (following Harrison White), whether or not people who share political concerns can become organized is determined by "catnet" -- whether they belong to a common category (such as "stockbroker" or "Catholic") and whether or not there are social networks among them. Business owners in China are part of a well-established category, and the mass participatory organizations are providing the social network.²⁹

When I conducted my interviews in 1994, though, entrepreneurs saw the friendships made through these organizations as strictly social. As one man put it, "the friendship of friends is more important than money."³⁰ The few who made use of them in their business used them for quite modest ends, and none were political. Entrepreneurs most often discussed management techniques and market conditions with their peers, but a few also got help finding joint-venture partners, meeting customers, importing small quantities of goods from Hong Kong, or finding real estate sites for their businesses.³¹

²⁸Interviews 3, 40.

²⁹Tilly.

³⁰Interview 14.

³¹Interviews 30, 35, 66, 48, 65, 14, 55.

Despite their current predominantly social nature, these strengthening links among private business owners could become more political in the future.

While most people who mentioned positive things about the organizations were modest in their praise, those who criticized the organizations were not modest in their animadversion. Entrepreneurs who disdained the organizations saw them as powerless and therefore a waste of time. A wholesaler in Hangzhou participated in the Private Enterprise Federation and the Industrial and Commercial Federation because he had been asked to, but he summarized his opinion of them curtly, saying “they are no help.”³² A private retailer who had conflicts with the Tax Bureau and the state enterprise which was his landlord similarly got no assistance from the associations.

No organization was willing to help me. The Private Enterprise Association has no strength -- they want *us* to help *them*, because we are the biggest private business in the area. My enterprise is a hot topic in this city, and I can use this to give private business owners and the Private Enterprise Association good press. I can be a spokesperson for private business.³³

Despite his troubles, because he owned a sizable firm he found himself in a more powerful position than the Association.

Even representatives in the People’s Consultative Conference thought the organization lacked strength. Representatives believed the Conference had no authority of its own. As one representative said, “we can tell the government our problems, but whether or not the government does something is up to them. One hundred voices from below do not equal one voice from above.”³⁴ Another representative echoed his thoughts, “in terms of concrete things, the Consultative Conference doesn’t help, because it has no power. We can talk about the problems, but it has no concrete use.”³⁵ When I

³²Interview number withheld.

³³Interview number withheld.

³⁴Interview number withheld.

³⁵Interview number withheld.

asked one man if he participated in any of the organizations for private business owners. he gave a particularly frank reply. "No. I have no plans to. I like hard work, not social relations. It's too much bullshit," he said.³⁶

One man felt the perceptions of officials in the Private Enterprise Association had not kept up with the changing nature of private businesses. "They think of private entrepreneurs as 'dumpling sellers.' But actually I'm totally different from this. Many large private companies exist, for example, airlines. They are willing to help me, but I don't need their help and there's no way they can help me,"³⁷ he said. Though he believed the Association was well-meaning, he nonetheless felt it was ineffectual.

The underlying theme of most comments was that the Communist Party was ultimately in control of all decision-making, and that the participatory organizations were a thin mask over this reality. A couple who ran a small business in Beijing said they were "utterly disinterested" in the organizations because they were "totally useless." They were quite cynical of the government's attempts to provide this semblance of political participation. They saw the role of the organizations as a meaningless charade. As the wife explained, "when we vote, we don't know anything about the people on the ballot. Not only don't we know anything about them, but we haven't even heard their name before. So we just check one-two-three." The husband added that "the government has already decided who will win anyway. They don't count the ballots. I'm thirty and I've only voted twice in my life."³⁸ A high-technology entrepreneur made a similar comment about the Industrial and Commercial Federation. "People say the Federation is a people's organization, not a Party organization, but it's not really, it's a subsidiary of the United

³⁶Interview number withheld. "Bullshit" was said in English.

³⁷Interview number withheld.

³⁸Interview number withheld.

Front Department.” He considered the meetings pointless, “I almost never go; they have no use for me. They don’t help me, and they’re boring.”³⁹

Because people viewed the organizations as powerless, they saw them mostly as exercises in futile discussion. When I asked a member of the standing committee of the Private Enterprise Association what the organization did, he replied, “we have meetings! This is what we do in China!”⁴⁰ A representative to the People’s Consultative Conference also characterized the activities of the organization in terms of talk rather than action. “The Consultative Conference is not very useful,” she said, “I’d rather do my own thing than go to meetings.”⁴¹

A People’s Congress representative recalled discussing private business’ inability to get bank loans at Congress meetings, but speculated that little more would be done. “Even though talk is useless, we will talk until the problems are solved,” he commented cynically. Some entrepreneurs thought even the topics of conversation were irrelevant, characterizing the discussions as chitchat about the weather or recent meals. In general, entrepreneurs’ perceptions of the state-run organizations mirrored their perceptions of state-run firms (discussed in Chapter Four): ineffectual, time-wasting, and boring.

A look at the internal governance of these organizations seems to confirm these entrepreneurs’ views of the groups as controlled by the Party. The selection of leaders and members varied from organization to organization. Both leaders and members of the two general political organizations, the People’s Congress and the People’s Consultative Conference, were chosen by the Communist Party. More narrowly focused business organizations, like the Private Enterprise Association, Private Enterprise Federation, and Industrial and Commercial Federation typically had members selected by the Party but leaders chosen by the members, subject to approval by the Communist Party. In some

³⁹Interview number withheld. “People’s organization” is a translation of “*minban*.” See note 3 for a description of the United Front Department.

⁴⁰Interview number withheld.

⁴¹Interview number withheld.

cities this was reversed, with new members chosen by existing members, but leaders chosen by the Party. Organizations in which the CCP seemed to have no input were rare, and the most narrow and non-political in scope.

A few non-political organizations entrepreneurs described seemed fairly autonomous from the Communist Party in their functioning, and relatively democratic in their operation. These organizations did have Communist Party approval for their existence, however. An entrepreneur in Hangzhou mentioned an association of restaurant managers and owners in which private, state-owned, and foreign ventures all participated.⁴² The organization was started in 1990 to coordinate among the restaurants, share market information and managerial experiences. The members decided how much money to contribute, reviewed applications for membership, and elected leaders with ballots. The association also published a report twice a month with market information, and helped members with small problems like finding workers. A similarly independent professional association in Beijing aimed to connect with foreign colleagues and set professional standards to reduce customer complaints.⁴³ Thus the Communist Party played a minor role only in the governance of narrowly defined professional associations.

In general, entrepreneurs felt that private business owners were selected by the Party for membership or leadership positions in these organizations in part because their businesses were successful -- large and well-run -- and partially because they themselves were considered honest and thoughtful. Despite their Communist ideology and peasant roots, Party and government organizations consistently paid more attention to owners of larger firms and treated them better than owners of smaller firms. This was partially because they were more important to the community as tax-payers and employers, but to a greater degree seemed to reflect an understanding of their social status. Consistent with the pre-reform Communist Party's favoritism of larger enterprises over smaller

⁴²It was called the "*Tongye Gonghui*."

⁴³Interview 65.

enterprises, owners of larger firms were seen as higher status people than owners of small firms, thus were accorded more respect.⁴⁴ The determinants of this respect were visible in the characteristics of the firms owned by officers in participatory institutions compared with those of non-officers. On average, officers' firms employed roughly 150 workers, while non-officers employed about 90. Officers' businesses were larger in terms of capital as well. Officers' firms had a mean of over five million yuan invested, whereas the average capital for non-officers' firms was under 2.5 million yuan.⁴⁵ Because business owners were selected by the Party for membership and leadership in mass participatory organizations based on the size of their firm and their perceived importance to the community, they benefited from the social status which accompanied the positions.⁴⁶

This subset of entrepreneurs did find the participatory organizations useful, but not for their intended purpose. Business owners who were officers in the organizations gained social status from their position, status that helped them do business. Entrepreneurs told me that being an officer was a social signal much in the same way that a degree from a prestigious university might be. A leadership position in an organization conveyed to others that the person was trustworthy, honest, and that her enterprise was well-run and successful. A businessman who had leadership positions in both the Industrial and Commercial Federation and the Consultative Conference explained the popular perception: "people think since I am a standing committee member, I have to be a fair and responsible businessman, so they trust me. I have good social status. Not anyone can participate in the committee, so if I participate, I must be a good guy."⁴⁷ An

⁴⁴See Feinerman, 227, for a discussion of the preferential treatment received by large state enterprises in contract disputes during the 1950s and 1960s.

⁴⁵The difference in the number of employees is not statistically significant, but it is large nevertheless. The difference in capital is significance at <.10 level of significance.

⁴⁶Unger also notes the ironic tendency of the Communist officials of these organizations to apply "the same criteria for high and low status that are common to other countries," namely, wealth and education, 817.

⁴⁷Interview number withheld.

engineer in Shanghai similarly deemed that the increased status of being an officer was worth the hours spent in association meetings. "Participating in this uses up my time, but it improves the reputation of my company," he said.⁴⁸ Given traditional negative views of private businesses, most business owners placed great value on their reputations.

Aside from the psychological rewards this higher status provided, it also conferred a few concrete benefits. One use of an owner's reputation was in getting loans. As an entrepreneur explained, "the Private Business Association serves as a kind of character guarantor. They don't guarantee the loan financially, but they increase the perceived trustworthiness of the entrepreneur who wants the loan."⁴⁹ As a result, officers felt bankers were more willing to lend to them.⁵⁰ In fact, the officers I interviewed did get loans more often than the non-officers, even though a higher percent of them wanted loans (Table 5.1). While only one-quarter of non-officers who wanted bank loans got them, half the officers who wanted loans got them.⁵¹ Reputation also came in handy in dealing with the city bureaucracy. A shopkeeper in Hangzhou noticed an improvement in how he was treated once he became an officer. "When I was just a private businessman, everyone could pester me. Now that's not the case any more,"⁵² he explained.

⁴⁸Interview 26.

⁴⁹Interview 68.

⁵⁰Also, interview 24.

⁵¹This figure conflates the effects of being an officer with the effects of firm size, however, since officers on average had larger firms than non-officers. The small sample size prevents a more accurate estimate of the relative effects of the two variables.

⁵²Interview number withheld.

Table 5.1: Borrowing Success Rates for Officers and Non-officers (%)

	Non-Officers	Officers
Of those who wanted loans, % successful	25	50
Successful at borrowing	18	45
Unsuccessful at borrowing	55	45
Did not want loan	27	10
N Cases	22	20

Pearson 4.3. DF 2. significance =.12

Increased participation in government-sponsored organizations was seen as a sign of the higher status of private business owners as a group as well the higher status of individual business owners. During the 1980s and 1990s, the Communist Party invited more and more private entrepreneurs to participate in representative organizations. This was widely perceived by business owners I spoke to as being an indicator of their increased importance in Chinese society. When I asked a Beijing entrepreneur if private businessmen were becoming a social force, he responded by referring to these organizations. "Private entrepreneurs have already stepped onto the stage," he said. "We are in the People's Consultative Conference. All the vice-chairs and the chairs of the Conference are private business owners. This is in recognition that we have already become a social force."⁵³ Similarly, the director of a well-known Hong Kong firm saw the private business owners' greater representation in the Consultative Conference as an indicator of their growing social role.

Because they gained more from the organizations, officers had a more favorable opinion of them than non-officers. While non-officers were on average somewhat negative towards the participatory groups, officers were typically somewhat positive toward the groups (Table 5.2). Those who did not participate in the organizations at all

⁵³Interview 67.

had the most negative attitude toward them.⁵⁴ Opinions about the organizations both affected and were affected by participation levels. In the case of officers, more participation meant they got more from the groups, which in turn led to a higher opinion of them. For others, some exposure to the groups gave them a negative opinion of the groups, which led them to participate less. In other words, some people attended a few meetings, found them useless, and stopped going. Still others had a negative opinion of the organizations to begin with, and therefore never participated. This was the case with former Communist Party cadres.⁵⁵

Table 5.2: Attitude Toward Participatory Organizations by Participation Level

	No Participation	Some Participation	Officer	Total
Highly Favorable	0	14	46	27
Somewhat Favorable	0	29	13	15
Neutral	0	29	17	17
Somewhat Negative	20	21	13	17
Highly Negative	80	7	13	33
N Cases	10	14	24	48

Pearson 28.8, DF 8, significance =.000

Business owners who were members of the Communist Party or had been Party cadres were far more negative toward the organizations than those owners with no Party affiliation (Table 5.3). For example, while only 19% of entrepreneurs with no

⁵⁴A univariate regression with opinion as the dependent variable and participation as the independent variable yields an adjusted R square of 0.32, with an F statistic significance=.000. The slope estimate is -1.1, SE 0.2, significance=.000. This means that moving from "no participation" to "some participation" yields a change in attitude from "somewhat negative" to "neutral," and moving from "some participation" to "officer" yields a change in attitude from "neutral" to "somewhat positive."

⁵⁵These data differ sharply from Nevitt's findings, wherein 95% of those queried reported that the Industrial and Commercial Federation activities were "excellent" or "good," while none reported they were "lacking" or "bad," p. 33. Nevitt surveyed only members of the ICF. As my data show, non-members were the most critical of these organizations. Furthermore, based on his description of the survey, it seems to have been a short questionnaire. In these types of surveys, respondents are less likely to be truthful than in longer interviews where they have time to become comfortable with the interviewer.

Communist Party affiliation were highly negative toward the participatory groups, 60% of former Party cadres were highly negative toward these groups.

Table 5.3: Attitude Toward Participatory Organizations by Status in Communist Party

	No Affiliation	Party Member	Former Cadre
Highly Favorable	32	0	20
Somewhat Favorable	19	0	0
Neutral	14	50	0
Somewhat Negative	16	17	20
Highly Negative	19	33	60
N Cases	37	6	5

Pearson 12.4, DF 8, significance = .13

There are two possible explanations for the negativity of Party members toward these organizations. One explanation is that Party members and cadres have a better understanding of how the Party functions than non-members, and therefore have a worse opinion of it and its organizations. The implication of this explanation is that Party members in general have a negative opinion of the Party. A second explanation focuses on selection bias: that only those Party members or cadres who dislike the Party would choose to become private business owners. The implication of this explanation is that only a subset of Party members dislike the Party. Because I did not interview large numbers of Communist Party members who were not private business owners, I cannot draw a firm conclusion about which of these two explanations holds true. However, the entrepreneurs who were Party members and cadres indicated that their attitude was shared by their colleagues in the Party. In addition, informal conversations with Party members and cadres I encountered during my research supports the contention that because they have a better understanding of the behind-the-scenes functioning of the Communist Party, as a group they are more negative towards the Party and its organizations than the Chinese population at large.

To what extent did these organizations accomplish what the government wanted them to do? From the state's perspective, these organizations had several goals. One goal was to co-opt private business owners, to make them feel as though they had a voice in the decision-making that affected their businesses without giving them real power. The state achieved fairly limited success in this respect. Only a very small fraction of business owners thought the organizations gave them a meaningful say in policy-making, as discussed above.

The organizations were also meant to disseminate and enforce policy and gather information about private businesses. In these tasks they were *somewhat* more successful, as many entrepreneurs mentioned getting information about policies through these bodies. In terms of policy enforcement, though, the organizations again get a low rating. The most telling evidence of their weakness in this respect are the rates of participation by private business owners. Many entrepreneurs told me that participation in the Private Enterprise Association or the Industrial and Commercial Federation was obligatory. Nonetheless, a large percent of entrepreneurs did not participate in them. In fact, over 40% of entrepreneurs who were not officers did not participate in any organization.⁵⁶ This figure shows organizational weakness in two ways. First, the organizations have no influence on this large body of owners who do not participate at all, whether to disseminate policy, to gather information, or to enforce policy. Second, if these bodies cannot make entrepreneurs attend required meetings, one can assume they can get them to do little else. The overall impression one gets from discussing these participatory organizations with private business owners is that they are of little use, little power, and little importance. They are clearly not meaningful instruments of political

⁵⁶I interviewed a large number of officers because some of the companies were located by officials in the Industrial and Commercial Bureau or the Private Enterprise Association. As a result, half my sample are officers, whereas probably only 10% (or fewer) of private business owners in the general population are officers.

control for the Chinese state.⁵⁷ Given that the entrepreneurs are outside the work unit system, as discussed in Chapter Two, the relative powerlessness of the participatory organizations vis-a-vis the entrepreneurs means that they are remarkably free from political supervision.

At the same time, though, these organizations are not on their way to becoming powerful interest groups (in the case of the associations and federations) or autonomous representative bodies (in the case of the Consultative Conference or the People's Congress). Using mass participatory organizations to exert control over Chinese society has historically been a central concern and core competence of the Communist Party. From this perspective, it is not surprising that these organizations would be among the last in China to experience political change resulting from the emergence of a new economic power. It must be seen as highly significant, though, that the historic pattern of these organizations serving as a powerful tool in the Communist Party's dominance over Chinese society has been altered with the emergence of the private sector.

In drawing lessons from China's experience about the relationship between economic and political change more generally, in the case of a bottom-up political change, economic change will influence politics the most in those areas where the state historically has less organizational competence and interest. In the Chinese case, these areas of less competence include use of complex market-related institutions to pursue policy goals, but do not include mass participatory organizations.

CONCLUSION: POLITICAL IMPLICATIONS OF THE LACUNA IN COMMUNIST PARTY SUPERVISION

Because private entrepreneurs and their employees were subject neither to enterprise-based political controls nor to effective mass participatory organizations, they were remarkably free from political supervision. Though the yet unseen implications of

⁵⁷Unger similarly concludes that these associations perform essentially no political control function for the state. In fact, he notes that some *getihu* did not even know the organization existed, 804-5.

this breach of Communist Party control are vast, one significant political consequence is already apparent: in the late 1980s and 1990s, private enterprises became a haven for dissidents.

Though most private business owners were not dissidents, some dissidents became private business owners. The majority of private business owners I interviewed did not support democracy in China (discussed in Chapter Four, above), however, evidence from my interviews and from the Chinese and Western press indicates that dissidents may look to private firms as a way to support themselves and their illegal causes.

During the course of my research, I spoke with approximately eighty private business owners. Among these eighty were two who had started a business in part to support anti-government activists or activities. One entrepreneur and his partners wanted to earn money to support the wife and child of a friend of theirs who had been imprisoned because of his participation in the Tiananmen protests of 1989. The activists' wife had been evicted from her apartment and had lost her job. She was forced to live with her parents in their tiny apartment. Money from the private enterprise allowed her to rent an apartment and support herself and her child.

I met a second group of entrepreneurs who were in the process of establishing a private enterprise with the explicit goal of using its proceeds to fund anti-government activity. These were not democracy activists per se, though they too had ties to Tiananmen protesters, but rather were men and women who thought the Communist Party had grown too corrupt and incompetent.

Stories in the Chinese and Western press give credence to these two tales of dissidents using private businesses to support themselves and their activities. An internal Party document from 1991 warned of the threat of dissidents connecting with existing private entrepreneurs. In the document, a high-ranking Party leader ordered Party cadres

to try prevent dissidents from “collaborat[ing] with privately owned enterprises” and forming a new class. The document estimated that private entrepreneurs held 250 billion yuan in savings, *one third* of the nation’s total. “This is terrible. What do these (owners of the savings of) 250 billion yuan want to do? They can buy out all the commodities,” the document cautioned. The Party leader who authored the document envisioned entrepreneurs conspiring with dissidents to use these funds for economic blackmail.

Cadres were also alerted to the threat of dissidents running their own businesses: “We have to pay special attention to whether [dissidents] are engaged in trading activities through the setting up of companies. If so, they will become a special class and a disrupting force to political stability. They will become an underlying force that threatens the regime.”⁵⁸

Given this apprehension, it is ironic that the Communist Party itself provided the strongest incentive for political dissidents to open their own firms. State-owned enterprises often fired dissidents in an attempt to punish them for their activities. Even protesters who did not lose their jobs at state-owned enterprises could be made miserable at work. For example, the dissident Wang Yonggang, who edited the banned journal *Voice of Democracy*, was harassed at the wool factory where he worked.⁵⁹ Many protesters were thus motivated to start their own businesses because they had no other way to earn a living.⁶⁰

Though no survey of the current employment of dissidents exists, many stories of dissidents-turned-entrepreneurs caught the eyes of journalists in the mid 1990s. Zhang Xianliang, a dissident who participated both in the Democracy Wall protests of the 1970s and the protests of the 1980s, had tried to support himself as a private businessman

⁵⁸Yeung, citing *Economic Times*, Hong Kong.

⁵⁹Lam, Willy Wo-lap. “Police Round Up Hunger Strikers.” *South China Morning Post*, June 8 1993, 1.

⁶⁰Tefft, Sheila. “From Tiananmen to Office Tower.” *Christian Science Monitor*, March 9 1993, 8.

selling clothing until his re-arrest in 1993.⁶¹ Yang Qinheng, now a private businessman, was editor of the underground journal *Responsibility*, having previously served two years in jail. Gong Xingnan, now a private entrepreneur, participated in the 1989 protests in Shanghai. He had been imprisoned for four years after a 1979 arrest.⁶² Dai Xuezhong, who served two years in a labor re-education camp for his participation in the Tiananmen protests, is also a private businessman.⁶³

As the government fears, some of these dissidents-entrepreneurs view their companies as resource bases for political activities. For example, Li Jie had been a professor in northwestern China until he organized his students to participate in the Tiananmen protests. After the Tiananmen massacre, he spent a year in jail, and lost his job and his apartment. He views the company he started since then as an extension of his political goals: "I am employing students who were involved in the democracy movement and then couldn't get a job anywhere else because they had a black mark in their files. This way we can stay together and we can build an economic base, so that in the future we can finance our political activities," he said.⁶⁴

Some of China's most famous dissidents have sought to use private businesses in their activities. According to Communist Party evidence cited against Wei Jingsheng during his 1996 trial, Wei had run businesses to finance his "anti-government plot" and had tried to start a private newspaper.⁶⁵ Wang Dan, a Tiananmen student leader released from prison in 1993, reported at the time that he wanted to go into private business at the

⁶¹ He was arrested on the eve of a planned gathering to commemorate the fourth anniversary of the Tiananmen massacre. Lam, "Police Round Up."

⁶² Ibid.

⁶³ Lam, Willy Wo-lap. "Police Detain Rights Activist." *South China Morning Post*, March 31 1994, 11.

⁶⁴ Kahn, Joseph. "Free Markets Fills Need in Communist China; Entrepreneurs Likely to Irritate Government Later." *Dallas Morning News*, November 16 1992, 1A.

⁶⁵ Lam, Willy Wo-lap. "Why the Liberals Want to be Civil." *South China Morning Post*, January 10 1996, 17.

earliest opportunity. Many of his friends had relocated to the Hainan Special Economic Zone, to work in private firms, he said.⁶⁶

The existence of such alternative employment in the private sector may foster new dissidents among well-educated Chinese. Many observers of the Tiananmen events of 1989 were distressed by the cowed behavior some Chinese intellectuals exhibited, including three students who literally kowtowed to the Party leadership.⁶⁷ One analyst has hypothesized that the intellectuals viewed themselves as supplicants to the Party, rather than its opponents, not just because of Chinese tradition, but also because their livelihoods and careers were completely dependent on placement in prestigious state enterprises.⁶⁸ The emergence of new employment opportunities for white-collar workers is steadily eroding this dependence.⁶⁹

Milton Friedman in part anticipated the dynamic described in this section in *Capitalism and Freedom*. Friedman reasoned that if all firms in a country were government-owned, anti-government activists would have no source of funding in the early stages of their movements (before they had attracted a large group of supporters). He argued that a private economy would permit individuals to get sufficiently wealthy to sponsor dissidents, as Engels did Marx.⁷⁰ The Chinese reality has added a new twist to this scenario because the state's attempts to punish dissidents have encouraged them to start their own firms rather than to rely on the beneficence of others.

⁶⁶Sampson, Catherine. "Buzz of Capitalism Replaces Peking's Sounds of Violence." *The Times*, June 4 1993, Overseas News.

⁶⁷Perry, Elizabeth J. "Intellectuals and Tiananmen: Historical Perspective on an Aborted Revolution." In *Crisis of Leninism and the Decline of the Left: The Revolutions of 1989*, ed. Daniel Chirot. 129-146. Seattle: University of Washington Press, 1991, 132.

⁶⁸*Ibid.*, 141.

⁶⁹Chinese friends of mine who graduated from university in 1997 had job offers from state firms, private firms, and Chinese-foreign joint-ventures. They were able to choose which to accept.

⁷⁰Friedman, Milton. *Capitalism and Freedom*. Chicago: University of Chicago Press, 1962, 16-17.

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CONCLUSION: THE POLITICAL IMPACT OF PRIVATE BUSINESS OWNERS

At the simplest level, private business owners affected politics because their firms were an alternative source of resources to the Communist Party-state. The power of the state was weakened because it was no longer a monopoly supplier of jobs, food, housing, clothing, and consumer goods. In addition, because the state was incapable of extending its political monitoring to the private firms, citizens persecuted by the state, whether “tails of capitalism” or Tiananmen dissidents, could find political shelter and a livelihood in private firms. Thus private firms provided freedom from the state.

The owners of private businesses affected politics in more active ways as well, through the development of market-related institutions in China. Business owners provided information to government officials about how these institutions needed to change for their businesses to thrive. Their numerous protestations and complaints about the shortfalls of the existing system gave the government a blueprint for reform. Private entrepreneurs also provided incentives for officials to develop market institutions.

These incentives relied on a confluence of three factors: goods, officials who desired them, and officials who had power over policy. To motivate officials effectively and thus gain political influence, entrepreneurs had to provide a desired good to an official who could influence a policy that the entrepreneur wanted changed. Entrepreneurs and their firms provided jobs of varying sorts (high skill, high pay; low skill, low pay), tax remittances, charity, and technological development. Whether government officials at varying levels (local, provincial, national) valued these goods depended on the incentive system the officials were subjected to within the organization of the state.

For example, district-level officials in China did not care that private entrepreneurs in their district provide jobs, because they could not ensure that these jobs

would go to inhabitants of their district. Conversely, they were quite interested in the tax revenues that entrepreneurs provide, because they were under pressure to remit fixed sums to the central government. Finally, the officials who benefited from the entrepreneurs had to be able to influence the policy the entrepreneur wanted changed, whether directly through policy formation or indirectly through policy implementation. Thus, the mere provision of a desired good by an entrepreneur did not result in political influence. This model explains why a private sector in a given polity will drive certain political changes but not others.

Private entrepreneurs influenced politics not only by motivating officials to construct market institutions but also by themselves creating such institutions. For example, in the case of banking reforms, entrepreneurs set up private credit households that loaned at floating rates, established market-oriented banks, and paid market rates for money channeled through state enterprises. Entrepreneurs also elicited market-oriented behavior from existing Communist institutions -- by falsely registering as collective- and state-owned enterprises, they avoided taxes and laws that discriminated against private business. This is how private business owners changed these institutions. What were the larger political implications of these changes?

In comparison with the institutions of the state-run economy that existed in China, some of the new market institutions created a more liberal polity. To the extent that banking institutions granted loans on financial bases as opposed to on government orders, the realm of the government's discretionary power was reduced. Banks became less of an ideological tool, subject to Party whim, and more a tool whose use was dictated by financial exigency. The changes in banking thus narrowed the scope of the Party's rule, and reduced its arbitrariness. The changes in taxation that reduced discrimination against private business owners were in themselves not directly politically liberalizing. But the

increased codification of taxes curtailed the ability of local cadres to impose taxes, assessments, or fines at will, thus limiting the cadres' power.

The strengthening of laws, courts, and attorneys to enforce business legislation had the largest potential impact outside the business community. During the 1980s and 1990s, important legal changes were initiated, though they were far from completed. The developing property rights for private firms also protected the belongings of normal citizens from arbitrary seizure by the state's agents. The increasing extent to which publicly-available documents described proper conduct for officials meant that individuals could challenge actions they felt violated these laws. The beginnings of judicial oversight of administrative actions meant that jurists, rather than administrative superiors, would sometimes judge these challenges.

At the most abstract level, the success of the private sector produced an ideological challenge to the Communist Party. Because they were economically efficient, private firms created employment and wealth that proved irresistible to the Communist leadership. The ideological confusion sown by the leadership's attempts to simultaneously support capitalists and call themselves Communists critically weakened one of the Party's tools of political domination over society: a coherent ideology. The weakening of this ideology can be seen in the entrepreneurs' own rejection of Communist Party propaganda regarding their character, place in society, and future development. This ideological confusion also challenged the Party as an organization. If in the coming years the Party manages to extricate itself from this ideological dilemma, it will only be with a major re-casting of its political mission. This re-casting may or may not take a more liberal direction.

The impact of private business owners on Chinese politics in the fifteen years since their re-emergence has been somewhat different from what is described in existing comparative theories. The class-based analyses of the role of the business class in

democratization in Europe and the U.S. contribute little to our understanding of how the emergence of a business class might lead to political liberalization in an authoritarian state in which political organization is highly circumscribed. Without the ability to organize, neither political parties nor armies were viable means through which business owners could influence politics. But business owners nevertheless did influence politics in the more circuitous ways described above.

Both neo-modernization writings and studies of the middle classes in East Asian politics put heavy emphasis on political beliefs. To get a sense of the longer-term effects of the private sector in China, along with extrapolating existing impacts into the future, one must also examine the political beliefs of the business owners. My findings echo the cautions of many of the scholars of the East Asian middle classes -- that important political distinctions exist within these groups.

Most Chinese entrepreneurs shared a desire for political stability. However, unlike business owners in other countries, their concerns centered on political campaigns led by the government, rather than those led by labor activists. This concern reflects both the Communist Party's anti-business history and the political instability of the Maoist era. Entrepreneurs feared a revival of the persecution of business owners in the 1950s (and other periods) and a return to the instability of the Cultural Revolution. Entrepreneurs were willing to support the Communist Party as long as it continued to produce economic growth with political stability. While some entrepreneurs believed that the Party was likely to succeed in this task, and was capable of leading an economically reformed China, others were far more skeptical.

The majority of business owners I interviewed did not favor democracy and view most of the country's population as too poorly educated to govern themselves. Nevertheless, entrepreneurs who were more politically savvy, from traveling abroad or

serving as a Communist Party cadre, and those who were in their teens and early twenties during the Cultural Revolution, were harshly critical of the Communist Party and its future in China. Though not supportive of immediate national elections, these entrepreneurs favored political competition and an end to Communist Party rule.

If the neo-modernization literature on the effects of increased wealth on individuals' beliefs is correct, these effects have not yet become evident in China. The rapidity of China's economic transformation draws attention to the fact that the proposed links between growth and political change involve substantial time lags. Decades or generations must pass for economic growth to liberalize politics by changing citizens' attitudes as these theorists describe. These theories thus cannot account for political changes which rapidly follow economic growth.

Though studies of the middle classes in East Asia focus on economics as a determinant of political beliefs (looking, for example, at differences in beliefs between professionals and shopkeepers), my research indicates that significant differences in beliefs exist among members of one economic group, and that these differences are based on variation in life experiences. Thus entrepreneurs of a given age, exposure to political information, and gender may well share beliefs with non-entrepreneurs of the same background. Business owners are likely to form future political alliances with other business owners when the issue is policy toward the private sector or market institutions, while segments of the private sector may well form alliances with non-entrepreneurs on other political issues, including the "big" question of reform of the single-party system.

Another possible future impact of private business owners is also hinted at when discussing political attitudes with them. Several business owners stated either seriously or jokingly that one day they or other entrepreneurs would enter politics. One man said he might run for mayor; another pointed out that in many rural townships private business owners were simultaneously serving as village chiefs, because they were the most

capable persons in the area. While the great majority of entrepreneurs believed that private business owners were highly capable, many thought the Communist Party was much less capable. Entrepreneurs of the Cultural Revolution age cohort also showed great interest in politics. Thus, it is not implausible that soon greater numbers of business owners will bring their perspectives to the Chinese government as members of it.

A corollary to this possibility is the possibility that, as the marketization of the Chinese economy progresses, the political organizations of which entrepreneurs are already members will become more powerful. A small but emphatic segment of the entrepreneurs I interviewed believed that participatory organizations, such as the People's Consultative Conference and the People's Congress, were useful forums for conveying the political demands of business owners to the government. Though the overwhelming majority of business owners felt that even the highest levels of these organizations were powerless, over the past decade the trend has certainly been for these organizations to become more substantive.

While business owners used their wealth to create political change, only some of these changes necessarily advanced political liberalization. In providing the opportunity to earn a living outside the Party-controlled state sector, private firms immediately gave more freedom to the Chinese population. By giving the state strong incentives to create market institutions that operated on expediency rather than ideology, and were rule-based rather than whim-based, private businesses again contributed to a more liberal polity. However, in undermining the ideology and legitimacy of the Communist Party, private business owners weakened the existing political order without providing a better alternative. If the Communist Party fails to respond to this challenge by creating new legitimacy for itself on new grounds, or if new political institutions do not emerge to fill the void left by the weakened Communist Party, political disorder may result. A

weakened Communist Party could also be replaced by an equally illiberal successor regime. Thus as Moore found in England and the U.S. in earlier centuries, the emergence of business owners in China in the late 20th century has been politically destructive as well as constructive.

It is crucial to note as well that liberalization does not mean democratization. When private entrepreneurs gained political influence, they diffused political power and created a somewhat more liberal polity. Because most Chinese are neither Party cadres nor entrepreneurs, however, a polity in which power is shared between business owners and a single governing party is far from a democracy. Similarly, though at this point in China's political history, the translation of entrepreneurs' economic strength to political power constrained the Party's ability to dominate society, democracies seek to *limit* the extent to which economic power can become political power. Thus the re-emergence of private business owners in Communist China, while resulting in a more liberal polity, has only introduced the possibility of democratization.

APPENDIX ONE: THE INTERVIEW FORMAT

The interviews were semi-structured, and on average lasted about two hours. All interviews were conducted at the owner's place of business. Usually I was accompanied by the graduate student from my affiliate university who had initially contacted the business owner. In some cases, the graduate student had a personal connection to the owner. Sometimes the owner would have other managers present to provide supporting information, translation, or (I imagine) status or reassurance. Quite often the entrepreneur invited the whole group to lunch or dinner after the interview.

I began the interviews by introducing myself as a graduate student from the University of California doing Ph.D. research on the private economy in China. I mentioned that approximately sixty people would be interviewed in the whole study, and told them how many people had already been interviewed. I told them that if they did not want to answer a question, they should not answer it.

The first half of the interview was spent on personal and business-related questions which interviewees were interested in, familiar with, and comfortable discussing. Some questions were simple to answer, such as "what year were you born?" Other questions were designed to elicit an extended discussion. In the second half of the interview, after they had relaxed somewhat, I asked questions about their relationship with government bureaus and participatory organizations, and their opinions of these organizations. Finally, I asked them a range of political questions. Sensitive questions were led into by stages, for example, by first asking, "what economic changes are needed for your business to continue growing?" Then, "are there any legal or political changes needed?" Over the series of political questions, I tried to understand what they thought the reforms meant for China, and what sort of political future they envisioned or desired.

In some cases, I was only able to ask a question once I realized it was an issue. For example, I initially assumed registered capital would be a reasonable measure of the capital of the business. However, after a few interviews, an entrepreneur mentioned that although his starting registered capital was large, he had in fact started with almost no money (entrepreneurs borrow money from friends to meet the minimum capital requirements set by the local government; after registering, they repay the money). Only after that interview did I begin to ask interviewees about both their registered and actual capital. Similarly, after a former banker told me that all loan officers take bribes for bank loans, I began asking entrepreneurs if they had bribed the banker in order to get their loan.

After a dozen interviews or so, it became relatively easy to tell how forthright interviewees' responses were, from the kind of answers they gave, their facial expressions and body language. For some of the questions in the interview, there were stock answers from the newspapers. For example, when asked whether there was a contradiction between the growth of the private economy and CCP leadership, most people would quickly reply: "The private economy is a supplement to the socialist economy," or, "this is 'socialism with Chinese characteristics.'" If an interviewee gave implausible answers, sometimes I would challenge them. Often this tactic would be effective in getting a more honest answer, and even amused the entrepreneur.

Other questions were apparently not in the papers often enough for most people to have developed stock answers to. For example, people were usually surprised when asked "what is the difference between 'socialism with Chinese characteristics' and capitalism?" The ensuing discussion was therefore often quite revealing. I rated the interview frankness of the interview on all these factors. If it seemed an interviewee had not thought about the issues, I tried to probe or ask a slightly different question.

I decided not to use a tape recorder after my preliminary study in Shanghai the summer before the main study began. I found that the tape recorder made the interviewees tense and less forthright. I took notes during the interview, and afterwards clarified points with the Chinese graduate student accompanying me. Often we theorized about why a particular person expressed the views they did. This discussion gave me a Chinese perspective on the interview. Each day I entered the notes into my computer, adding as much additional material as I recalled. Typically, I conducted only one interview per day, though occasionally I did two. Upon returning to the United States, I coded the interviews and entered them into SPSS. The coding document is included as Appendix Three.

APPENDIX TWO: QUESTIONNAIRE

- What business are you in (please introduce your firm)?
- In what year did you start your business?
- When did you first register as a “private” business?

Initial Financing

- How much money did you use in starting your business? Registered capital then? Registered capital now?
- What was the source of the startup money?
- Did you get any money from overseas relatives?
- Did you borrow any money from the bank? Ever? Was it hard? How much? When? Who helped you?

Real Estate:

- How did you find the real estate (factory, office, storefront) for your business?
- Are you renting or did you buy?
 - If they own: How secure is your “property”?
- From whom?
- How did you settle on a price?

- Did anyone help you resolving the real estate issues?

Personal Factors in Startup

- Why did you decide to start your own business?
- What kind of work were you doing before you started your own business?
- Did your old jobs help you at all in running your own business?

Employees

- How many employees did you start with? How many employees do you have now?
- Have you had trouble finding employees?
- Did and CCP cadres ever “introduce” employees to you?
- Do you have any problems with you workers?

Partners

- Do you now have partners?
- Do they participate in managing the firm or not?
- How did you know them?
- Why did you choose these partners?

Competition

- Do you compete with many firms?
- Are your main competitors in the state, collect, or private sector?

- Do you compete with foreign firms?
- On what basis do you compete?
- Have you ever lowered your prices to win customers?

Production/Business Inputs

- Do you buy your raw materials from private, collective or state?
- Are any of them hard to get or especially expensive?
- Are there any special measures you take to reduce your costs? (general or specific)
- If high or medium tech: Where did you get the technology from?

Sales/ Distribution

- How did you find your first customers?
- Where do you sell your products now?
- Do you export?
 - If they use a reseller: Was it hard to get them to buy your products?
- What are the current sales from the business?
- Has the business you are in changed in major ways course of the business, for example, have you changed your product, or have things gotten a lot easier or harder for you? If so, why?
- What are the main problems you have in your business?
- Have you ever complained about these problems to an official?

Relationship with Government Agencies

- What formal/informal societies/agencies are you a member of? What activities do they do? Are they effective in getting problems solved. Does your membership help you with your business?
- What other agencies you come into contact with in running your business? Which agency would you say is most helpful? What kind of help do they give you?
- Have you ever asked a Party member for help?
- I've read a lot about how many private entrepreneurs have trouble with too many fees or unfair assessments ("san luan"). Would you say you have also had these problems?

Big picture questions

- How are private entrepreneurs different from most Chinese? Or are they basically the same?
- What kind of impact do you think private entrepreneurs have had on Chinese society?
- What kind of economic changes are required for your business to continue to grow, if any? Do you think it is possible for these changes to occur without political changes?
- What do you think of MFN? Was it fair for the U.S. to raise these human rights issues? Did it help China at all that the U.S. did this?
- What do you think about the economic and political changes in Russia?
- What impact will 1997 have on the mainland? What about HK?
- What do you think about the situation in Taiwan? Is it both a political and an economic success?

Questions about the entrepreneur

- What year were you born?
- How much schooling have you had?
- What did your grandfathers, grandmothers and parents do?
- Have you ever been abroad? To which countries?
- Do you have relatives abroad? When did they leave China? (Why?)
- Are you, or have you ever been, a member of the Communist Party?
- How are your best friends employed?
- Are any of your friends private entrepreneurs? Party cadres?

APPENDIX THREE: CODING DOCUMENT

What follows is the basic coding document for this research. Over the course of the data analysis, many questions were recoded to group certain responses together.

These recodes are not include here.

(V 1) CASE ID

Q 1.0 • What business are you in (please introduce your firm)?

(V2) For the business that makes the most money / has the most money invested.

- 0 INAP
- 1 HIGH TECH: manufacture computers, computer parts, some medical machines, write software. Biotechnology research. (Requires advanced degree)
- 2 MEDIUM TECH: Precision manufacturing, electronics manufacturing. Cleaner work environment, requires some advanced training, engineers.
- 3 LOW TECH: Manufacturing of standard-grade light industry, which is characterized by few steps in the manufacturing process, low value-added, possible dirty work environment, high labor content, no special education required for laborers. Most services.

(V3 - V7) Five Mentions

Each business should be coded in the order of the size of the business. For example, if the largest business is a clothing factory and second largest businesses is a restaurant, the first two mentions should be: 1. manufacturing (01), 2. other services (08).] If there are three restaurants, they should be coded with a single (08). If there are several different service firms (a restaurant, a tailor shop), each should receive its own code.

- 00 INAP
- 01 Manufacturing
- 02 Agriculture
- 03 Construction
- Services:
- 04 importing
- 05 real estate
- 06 financial services
- 07 domestic wholesale / exporting wholesale
- 08 other services (transportation, tailor, retail, restaurant, entertainment, training)
- 96 DIDN'T ASK
- 97 OTHER
- 98 RESPONDENT DOESN'T KNOW
- 99 REFUSED TO ANSWER

(V8 - V12) Mentions as above, but in chronological order. Include businesses that no longer exist.

[In order to see from what roots larger businesses evolve.]

History of the Business:

Q 1.1 • In what year did you start your first business?

(V13)

00 INAP
49-94 The year started.
96 DIDN'T ASK
98 RESPONDENT DOESN'T KNOW
99 REFUSED TO ANSWER

Q 5.6 • When did you first register any business as a "private" business?

(V14)

00 INAP
87-94 The year registered.
96 DIDN'T ASK
98 RESPONDENT DOESN'T KNOW
99 REFUSED TO ANSWER

(V15-V16) Type of registration of the two largest enterprises.

00 INAP
01 Registered as GETIHU.
02 Registered as PRIVATE.
03 Registered as COLLECTIVE.
04 Registered as SOE.
05 Registered as JOINT-VENTURE.
06 Registered as WHOLLY-OWNED FOREIGN VENTURE.
96 DIDN'T ASK
97 OTHER
99 REFUSED TO ANSWER

(V17) Is the biggest enterprise contracted?

0 INAP
1 Enterprise is GENUINELY CONTRACTED. [An SOE or a government contributed money to the establishment of the enterprise, whether entirely (i.e. a formerly state-owned company is losing money, so they contract it) or partially (i.e. established in conjuncture with a private partner).]
3 Enterprise is FALSELY CONTRACTED [No government investment].
5 NOT CONTRACTED.
6 DIDN'T ASK

9 REFUSED TO ANSWER

(V18) Reason for registering as did.

- 0 INAP
- 1 Wanted to register as collective / SOE\ because it would be easier to do business with SOEs, other firms/people don't want to do business with PEs / get other benefits
- 2 Wanted to register as PE because I want to do it all on my own.
- 3 Registered as SOE because could get bank loans.
- 4 Registered as SOE to do real estate.
- 6 DIDN'T ASK
- 7 OTHER
- 8 RESPONDENT DOESN'T KNOW
- 9 REFUSED TO ANSWER

(V19) Are they in partnership with another firm (any of their enterprises)?

- 0 INAP
- 1 Joint venture / joint capital (*hezuo / hezi*) with SOE
- 2 Joint venture / joint capital (*hezuo / hezi*) with foreign company
- 3 Joint venture / joint capital (*hezuo / hezi*) with university
- 5 NO
- 6 DIDN'T ASK
- 7 OTHER
- 8 RESPONDENT DOESN'T KNOW
- 9 REFUSED TO ANSWER

Initial Financing

Q 2.0 • How much money did you use in starting your first business? Registered capital then? Registered capital now (for all businesses)?

From (V 23) below and question 6.4, I will construct a measure of the size of the business. I anticipate this will correlate with political attitudes, with owners of larger businesses feeling more entitled. Also, they probably have more ways of getting around government regulations they don't like.

(V20) Registered capital at startup (in yuan)?

- 0 - 900,000 Registered capital at startup (in yuan)
- 999990 INAP
- 999996 DIDN'T ASK
- 999998 RESPONDENT DOESN'T KNOW
- 999999 REFUSED TO ANSWER

(V21) Actual startup capital (in yuan)?

- 0 - 900,000 Actual capital at startup (in yuan)
- 999990 INAP

999996 DIDN'T ASK
999998 RESPONDENT DOESN'T KNOW
999999 REFUSED TO ANSWER

(V22) Registered capital now (in thousands of yuan)?

O - 999,989 Registered capital now (in yuan)
999990 INAP
999996 DIDN'T ASK
999998 RESPONDENT DOESN'T KNOW
999999 REFUSED TO ANSWER

(V23) Actual capital now (in thousands of yuan)?

O - 999,989 Actual capital now (in yuan)
999990 INAP
999996 DIDN'T ASK
999998 RESPONDENT DOESN'T KNOW
999999 REFUSED TO ANSWER

Q 2.1 (V24) • What was the source of the majority of the startup money for the first business?

0 INAP
1 Own savings.
2 Relatives.
3 Friends.
4 Partners.
6 DIDN'T ASK
7 OTHER
8 RESPONDENT DOESN'T KNOW
9 REFUSED TO ANSWER

(V25) Was there later investment from other people after business is doing well?
[Probably drop this question from stat analysis, as I don't really care what the answer is]

0 INAP
1 YES
5 NO
6 DIDN'T ASK
8 RESPONDENT DOESN'T KNOW
9 REFUSED TO ANSWER

Q 2.2 • Did you get any money from overseas relatives?

(V26) Do you have overseas relatives?

- 0 INAP
- 1 YES
- 5 NO
- 6 DIDN'T ASK
- 8 RESPONDENT DOESN'T KNOW
- 9 REFUSED TO ANSWER

(V27) Did they get money from them?

- 0 INAP (i.e. no overseas relatives)
- 1 A little start-up money.
- 2 A significant amount of start-up money.
- 3 Some money once successful.
- 5 NO.
- 6 DIDN'T ASK
- 8 RESPONDENT DOESN'T KNOW
- 9 REFUSED TO ANSWER

Q2.3 • Did you borrow any money from the bank? Ever? Was it hard? How much? When? Who helped you?

(V28) Did you borrow ever?

- 0 INAP
- 1 No.
- 5 Yes.
- 6 DIDN'T ASK
- 8 RESPONDENT DOESN'T KNOW
- 9 REFUSED TO ANSWER

(V29) If borrowed from bank, how hard was it?

- 0 INAP
- 1 It was extremely hard.
- 2 It was hard.
- 3 It was so-so.
- 4 It was easy.
- 6 DIDN'T ASK
- 8 RESPONDENT DOESN'T KNOW
- 9 REFUSED TO ANSWER

(V30) How many times have you gotten loans?

- 00 INAP / (Have not gotten loans)
- 01-05 Number of times
- 06 More than 5
- 96 DIDN'T ASK
- 98 RESPONDENT DOESN'T KNOW
- 99 REFUSED TO ANSWER

(V31) When did you first get a loan?

- 00 INAP
- 78-94 Year first borrowed
- 96 DIDN'T ASK
- 98 RESPONDENT DOESN'T KNOW
- 99 REFUSED TO ANSWER

(V32-34) Three mentions: Why were you able or not able to get a loan?
I'm interested in seeing the extent to which market forces dominate the loan business,
also, to see whether political attitudes correlate with receipt or non-receipt of a
loan.

00 INAP

Positive factors: Market

- 10 Got it using house as collateral / letter of credit as collateral.
- 11 Got it because firm is making a lot of money.
- 12 Got it because firm is well-known / well-respected.
- 13 Got it by getting an SOE to guarantee the loan.
- 14 Got it because it is a contract and therefore owned by the government.
- 15 Got it because the firm is a joint-venture.
- 16 Got it because the firm is high tech.

Positive factors: Non-market

- 20 Got it through connections.
- 21 Got it because I'm registered as an SOE / have contracted an SOE.
- 22 Got it because I bribed the banker.

Negative factors: Market

- 30 Haven't needed one.
- 31 No collateral / I didn't want to risk collateral.
- 32 No guarantor.

Negative factors: Non-market

- 40 Banks don't loan to PEs / don't trust PEs. / Bankers have old thinking.
- 41 I wasn't willing to bribe the bankers.
- 42 Don't have connections.

- 96 DIDN'T ASK
- 97 OTHER
- 98 RESPONDENT DOESN'T KNOW
- 99 REFUSED TO ANSWER

Real Estate:

Q 3.0 (V35) • How did you find the most recent real estate (factory, office, storefront) for
your business?

0 INAP

Non-market

- 1 Through a government organization.
- 2 Friends told me about it.

Market

- 4 From a real estate firm.
- 5 Through an advertisement in newspaper, t.v., etc.
- 6 DIDN'T ASK
- 7 OTHER
- 8 RESPONDENT DOESN'T KNOW
- 9 REFUSED TO ANSWER

Q 3.1 (V 36) • Are you renting or did you buy?

- 0 INAP
- 1 Renting / Leasing
- 5 Bought
- 6 DIDN'T ASK
- 8 RESPONDENT DOESN'T KNOW
- 9 REFUSED TO ANSWER

(V 37) How many years is the lease?

- 00 INAP
- 01-80 Number of years of the lease
- 96 DIDN'T ASK
- 98 RESPONDENT DOESN'T KNOW
- 99 REFUSED TO ANSWER

Q 3.2 (V 38) • If they own: How secure is your property?

- 0 INAP
- 1 Very secure.
- 5 Not very secure.
- 6 DIDN'T ASK
- 8 RESPONDENT DOESN'T KNOW
- 9 REFUSED TO ANSWER

Q 3.3 (V 39) • From whom did you get your real estate?

- 00 INAP
- Rented
- 10 Owned by an SOE.
- 11 Owned by the city / gov't.
- 12 Owned by a school.
- 13 Building built by PEASANTS on their farmland / owned by peasants.
- Owned
- 20 Own it myself because it was owned by my parents.
- 21 Bought it from a capitalist's child.
- 96 DIDN'T ASK
- 97 OTHER
- 98 RESPONDENT DOESN'T KNOW
- 99 REFUSED TO ANSWER

Q 3.5 (V 40) • What do you think of the price?

- 0 INAP
- 1 Price is cheap.
- 2 Price is reasonable / market / going rate.
- 3 Price is expensive.
- 6 DIDN'T ASK
- 7 OTHER
- 8 RESPONDENT DOESN'T KNOW
- 9 REFUSED TO ANSWER

Q 3.6 (V 41) • Did anyone help you resolving the real estate issues (was there someone between the buyer and seller)?

- 0 INAP
- 1 Yes.
- 5 No.
- 6 DIDN'T ASK
- 7 OTHER
- 8 RESPONDENT DOESN'T KNOW
- 9 REFUSED TO ANSWER

Personal Factors in Startup

Q 4.0 (V 42-45) Four mentions: • Why did you decide to start your own business?

00 INAP

Self-fulfillment

- 10 Because my existing job was boring.
- 11 There were too many people at the SOE. / SOE was over-staffed.
- 12 I wanted to own my own business.
- 13 To be boss. / To be more independent. / To have more freedom. / To not be interfered with.
- 14 To (demonstrate / use / develop) my talents.

Money

- 20 To make money. / Financial risk was low (i.e. good possibility of earning money).
- 21 Because a good opportunity arose.
- 22 I couldn't find a job. / Did not have connections to get a job.

Ideology

- 30 My old job was frustrating because of the mind set of the people there. / If you work hard, people think you are bad or are jealous.
- 31 Tired of being criticized as a "tail of capitalism" (descendent of a capitalist).

Future

- 40 Because I couldn't advance at my existing job.
- 41 The SOE was not suited to the market. / There was no hope for the SOE developing.
- 42 PEs are the new direction.

Altruism

- 50 To help people by providing a better (product / service).
- 51 To serve society.

Other

60 Thought I'd give it a try / since the policy changed, I thought I'd try.

96 DIDN'T ASK

97 OTHER

98 RESPONDENT DOESN'T KNOW

99 REFUSED TO ANSWER

Q 4.1 (V 46) • What kind of work were you doing immediately before you started your own business?

00 INAP / Full-time student.

01 Owned another PE.

02 Worked as a worker in an SOE.

03 Worked as a manager in an SOE.

04 Worked as a professor or researcher in a university or research institute.

05 Was a CCP cadre.

06 Worked as a manager at a jiti.

07 Worked in government.

96 DIDN'T ASK

97 OTHER

98 RESPONDENT DOESN'T KNOW

99 REFUSED TO ANSWER

Q 4.2 (V 47) • Did your old jobs help you at all in running your own business?

0 INAP

1 No.

4 Yes: Good network for business from old job / I do business with lots of my old customers.

5 Yes: Useful skills, such as: dealing with people, accounting, managerial skills, organization skills.

6 DIDN'T ASK

7 OTHER

8 RESPONDENT DOESN'T KNOW

9 REFUSED TO ANSWER

Employees

Q 5.0 • How many employees did you start with (in first enterprise)? How many employees do you have now (in all enterprises)? [Do not count partners]

(V48) Workers started with?

000-980 Number of workers started with.

990 INAP

996 DIDN'T ASK

998 RESPONDENT DOESN'T KNOW

999 REFUSED TO ANSWER

(V49) Worker have now?
0000 INAP
0001-9800 Number of workers now.
9996 DIDN'T ASK
9998 RESPONDENT DOESN'T KNOW
9999 REFUSED TO ANSWER

Q 5.3 (V 50) • Have you had any trouble finding employees?

0 INAP
1 NO.
2 YES: Hard to find people willing to take low wages.
3 YES: Sometimes well-educated people don't want to work for pes.
4 YES: Potential employees have a hard time getting permission to leave their SOE
/ getting their papers from their SOE.
6 DIDN'T ASK
8 RESPONDENT DOESN'T KNOW
9 REFUSED TO ANSWER

Q 5.4 (V 51) • Did any CCP cadres ever "introduce" employees to you?

0 INAP
1 YES: Took them for political reasons/ to maintain good relationships.
2 YES: Didn't take them.
3 Only take qualified workers, no matter who introduces them.
4 NO
5 NO (incredulous/ outraged).
6 DIDN'T ASK
8 RESPONDENT DOESN'T KNOW
9 REFUSED TO ANSWER

Q 5.5 (V 52) • Do you have any problems with your workers?

0 INAP
1 No.
5 Yes.
6 DIDN'T ASK
8 RESPONDENT DOESN'T KNOW
9 REFUSED TO ANSWER

Questions about the Current State of the Business:

Partners

Q 6.0 (V 53) • Do you now have partners?

0 INAP
1 No partners.

- 2 Have partners, but only because they are required by the PE law for limited companies (*youxian gongsi*), they have very little stock and no decision-making ability.
- 3 **Had** partners, but bought them out because we couldn't get along.
- 4 Have **real** partners.
- 6 DIDN'T ASK
- 8 RESPONDENT DOESN'T KNOW
- 9 REFUSED TO ANSWER

Q 6.1 • Do they participate in managing the firm or not?

Not coded.

Q 6.2 • How did you know them?

Not coded.

Q 6.3 • Why did you choose these partners?

Not coded.

Competition

Q 7.0 (V 54) • Do you compete with many firms?

- 0 INAP
- 1 Very little competition/ under-served market / price is massively lower than competitors`.
- 2 Some competition, but not so bad.
- 3 Very competitive/lots of companies in this market.
- 6 DIDN'T ASK
- 8 RESPONDENT DOESN'T KNOW
- 9 REFUSED TO ANSWER

Q 7.1 (V 55) • Are your serious competitors in the state, collective, or private sector?

- 00 INAP
- 01 Private
- 02 Collective
- 03 SOE
- 04 Foreign
- 05 All types
- 06 MOSTLY SOE, but also other types.
- 07 Private and collective predominantly
- 08 SOE, foreign, joint-ventures
- 96 DIDN'T ASK
- 98 RESPONDENT DOESN'T KNOW
- 99 REFUSED TO ANSWER

Q 7.2 • Do you compete with foreign firms?

Code with 7.1 above.

Q 7.3 (V 56-58) Three mentions: • On what basis do you compete: price, service, product quality, product selection?

00 INAP

Market

01 PRICE (lower).

02 More EFFICIENT / less waste / more flexible with inputs, therefore costs lower.

03 QUALITY / product design better.

04 After-sales SERVICE / Before-sales service.

05 FLEXIBILITY/ SENSITIVITY in answering customers' needs (fashion).

06 Good personal or corporate REPUTATION / trust of customers.

07 SPEED in coming to market, making decisions.

08 Use lots of ADVERTISING

Non-market

20 Because the quality of my connections (whatever the specifics)

Not competing

30 Business is not competing effectively.

40 Doesn't need to compete -- seller's market.

96 DIDN'T ASK

98 RESPONDENT DOESN'T KNOW

99 REFUSED TO ANSWER

Q 7.4 (V 59) • Have you ever lowered your prices to win customers?

0 INAP

1 Yes

3 Price is permanently lower than competitors'.

5 No

6 DIDN'T ASK

8 RESPONDENT DOESN'T KNOW

9 REFUSED TO ANSWER

Production/Business Inputs

Q 8.0 (V 60) • Where do you buy your raw materials?

0 INAP

1 Buy them from cheapest seller: SOE, collective, private / don't care who I buy them from / buy them on the market.

2 Buy from one SOE supplier.

3 Have a special source requiring contacts (e.g. the spleens, smuggling).

6 DIDN'T ASK

8 RESPONDENT DOESN'T KNOW

9 REFUSED TO ANSWER

Q 8.1 (V 61) • Are any of them hard to get or especially expensive?

- 0 INAP
- 1 No. / All can be had on the market, if you're willing to pay for it.
- 5 Yes.
- 6 DIDN'T ASK
- 8 RESPONDENT DOESN'T KNOW
- 9 REFUSED TO ANSWER

Q 8.2 • Are there any special measures you take to reduce your costs? (general or specific)

Uncoded.

Q 8.3 (V 62) • If high or medium tech: Where did you get the technology from?

- 0 INAP
- 1 Self.
- 5 Hires experts/ professors.
- 6 DIDN'T ASK
- 8 RESPONDENT DOESN'T KNOW
- 9 REFUSED TO ANSWER

Sales/ Distribution

Q 9.0 (V 63-64) Two mentions: • How did you find your first customers?

- 00 INAP
- Based in part on personal relationships [I label this 'relationship type,' but actually this type is also extremely common in well-developed market economies.]
- 10 Sell to friends.
- 11 Through friends' introductions.
- 12 Customers from previous job.
- Market type
- 20 By word of mouth stemming from superiority over competitors (better quality, service, price).
- 21 Through use of hired experts who have contact with customers (e.g., doctors).
- 22 Through advertisements in newspaper, magazine, t.v.
- 23 Door-to-door / cold calls.
- 24 I sell everything to one distributor / wholesaler / partner.
- 25 Off the street from a retail outlet.
- 26 Sell through a distributor, in part.
- 27 Customers come to me.
- 96 DIDN'T ASK
- 98 RESPONDENT DOESN'T KNOW
- 99 REFUSED TO ANSWER

Q 9.1 (V 65-66) Two mentions: • Where do you sell your products now?

Code same as above.

Q 9.1.1 (V 67) • Do you export?

- 0 INAP
- 1 Yes.
- 4 Want to but haven't yet.
- 5 No.
- 6 DIDN'T ASK
- 8 RESPONDENT DOESN'T KNOW
- 9 REFUSED TO ANSWER

Q 9.2 (V 68) • If they use a reseller: Was it hard to get them to buy your products?

- 0 INAP
- 1 Yes.
- 5 No.
- 6 DIDN'T ASK
- 8 RESPONDENT DOESN'T KNOW
- 9 REFUSED TO ANSWER

Q 6.4 (V 69) • What are the current sales from the business?

- 000 INAP [for example, have not yet entered, already exited business]
- 1- 990 Thousands of yuan per month.
- 996 DIDN'T ASK
- 998 RESPONDENT DOESN'T KNOW
- 999 REFUSED TO ANSWER

Q 6.5 • How much of that would you say is reinvested?

Question omitted from statistical analysis because was not asked or answered often.

(9.4 • Has the business you are in changed in major ways course of the business, for example, have you changed your product, or have things gotten a lot easier or harder for you? If so, why?)

Q 9.5 (V 70-73) Four mentions: • What are the main problems you have in your business?

- 00 INAP
- 10 I have no major problems.

Policy problems

Institutions of Market Economy Not Developed

- 20 LAWS regarding PEs buying REAL ESTATE are unclear.
- 21 Can't borrow money from the BANK. / China doesn't have a commercial banking system. / Loan period is too short.
- 22 Not enough INTELLECTUAL COPYRIGHT PROTECTION: Competition with people stealing technology / brand name / product concept. Workers leaving company and stealing technology.
- 23 Government bureaucracy is slow. / Slow processing employment papers, too many departments to deal with. / Government action regarding joint-ventures is slow.
- 24 Laws don't protect PEs or property enough.

25 Government had interfered with the running of the company.

PEs not treated same as SOEs

30 PE employees can't get professional CERTIFICATIONS.

31 Competition with SOEs is unfair because they have privileges PEs don't.

32 PEs not allowed to buy REAL ESTATE.

33 PEs had to pay higher taxes than SOEs until recently.

34 People not willing to do business with PEs

35 Officials don't treat PEs as well as SOEs / don't implement policy correctly.

36 Not allowed to be a stock company.

Don't like specific policies

40 TAX rate unfair.

41 Laws regarding COSTS are unfair (for example, limitations on salaries, expenses like airplane tickets.)

Policy instability

50 Laws regarding JOINT-VENTURES are changing.

51 Unreliability / INSTABILITY OF POLICY. Don't know how and when policies will change.

Corruption

60 Officials demanding food, drink cigarettes because impossible for company to obey every regulation.

61 Other corruption problems

Problems with market conditions

70 Can't compete successfully with SOEs because they are so much larger.

71 Can't find REAL ESTATE/ real estate is too expensive.

72 Not enough customers.

73 Number of customers fluctuates, creating inefficiency and increasing costs.

74 Too much COMPETITION.

75 NOT ENOUGH CAPITAL for expansion **despite** bank loans equal to assets.

76 For high-tech firms: can't afford research / state certification costs and time.

Problems within the firm

80 I don't know enough about MANAGEMENT.

81 I don't know how to make the company the most efficient.

82 The work is EXHAUSTING.

83 Persistence of SOE IDEAS among managers, workers.

84 I need more talented EMPLOYEES.

96 DIDN'T ASK

97 OTHER

98 RESPONDENT DOESN'T KNOW

99 REFUSED TO ANSWER

Q 9.6 (V 74) • Have you ever complained about these problems to an official?

0 INAP

1 Yes: Complained through an organization.

2 Yes: Complained directly to an official.

3 Yes: Complained through the press.

4 No.

5 No: It's no use.

- 6 DIDN'T ASK
- 8 RESPONDENT DOESN'T KNOW
- 9 REFUSED TO ANSWER

Relationship with Government Agencies

Q 11.0 • What formal/informal societies/agencies are you a member of? What activities do they do? Are they effective in getting problems solved. Does your membership help you with your business?

[In this question, code only comments about participatory organizations, ones which the private entrepreneur could be a member of, such as those listed in (V 78-94) below. Comments about government bureaus, which do not have members, should be coded under Q 11.3 below.]

(V 75) Extent of interaction with organizations:

- 0 INAP
- 1 Doesn't deal with any of them.
- 2 Goes to meetings of one or two of them a few times a year.
- 3 Is an officer in one or more agencies.
- 6 DIDN'T ASK
- 8 RESPONDENT DOESN'T KNOW
- 9 REFUSED TO ANSWER

(V 76-78) Three mentions about any organization:

- 0 INAP
- Reasons for belonging
- 10 I am required to participate / have no choice.
- 11 I was recruited / invited to participate.
- Reasons for not belonging
- 20 Because my business is too small / I was not invited.
- 21 Group had already reached maximum size.
- 22 Because the groups are not useful to me. / I don't want to waste time in them.
- 23 Because I don't want to have anything to do with the government.
- 24 There are no groups for companies like mine. / Unaware of groups' existence.
- Positives
- 30 Help me understand (tell me about) government policy / new policies.
- 31 Express the problems of PEs to the government.
- 32 Allows me to share experiences in management with other managers.
- 33 Being a committee member gives me social status and people trust me.
- 34 Solve small problems.
- 35 Resolve major issues.
- Specific issues the organization helps with
- 40 Helps me find customers.
- 41 Helps me find employees.
- 42 Help me get certifications for my employees.
- 43 Can help get a permit for a car.
- 44 Give me, individually, permission to go abroad.
- 45 Organize trips abroad for the group.
- 46 Resolve real estate problems, such as providing land for PEs.

47 Helps me get materials.

Negatives

- 50 They think of PEs as small-scale only / think of PEs as dumpling-sellers (shui jiao)
- 51 They are useless / powerless / have no rights. / They want to help me, but can't.
- 52 Can't solve big problems.
- 53 Is bad for my business because now people know my business is privately owned.
- 96 Didn't ask.

(V79) Interviewer's overall impression of respondent's attitude toward these organizations:

- 0 INAP
- 1 Highly favorable
- 2 Somewhat favorable
- 3 Neutral / Mixed
- 4 Somewhat unfavorable
- 5 Highly unfavorable
- 6 Didn't ask

(V 80) Did respondent mention s/he is a member of the **Zhengxie** (Chinese People's Political Consultative Congress -- "a revolutionary united front organization led by the CCP")?

- 0 INAP
- 1 Yes
- 4 Not a member
- 5 Didn't mention Zhengxie
- 6 DIDN'T ASK ABOUT ORGANIZATIONS
- 9 REFUSED TO ANSWER

(V 81) If member of **Zhengxie**, is it useful to respondent?

- 0 INAP
- 1 Yes
- 3 A little bit useful
- 4 Nice as a social activity, but not useful for business
- 5 No
- 6 DIDN'T ASK
- 9 REFUSED TO ANSWER.

(V 82) Did respondent mention s/he is a member of the **Gongshang Lianyi Hui** (Commercial and Industrial Friendship Association)?

- 0 INAP
- 1 Yes
- 4 Not a member
- 5 Didn't mention Gongshang Lianyi Hui
- 6 DIDN'T ASK ABOUT ORGANIZATIONS
- 9 REFUSED TO ANSWER

(V 83) If member of **Gongshang Lianyi Hui** (Commercial and Industrial Friendship Association), is it useful to respondent?

- 0 INAP
- 1 Yes
- 3 A little bit useful
- 4 Nice as a social activity, but not useful for business
- 5 No
- 6 DIDN'T ASK
- 9 REFUSED TO ANSWER.

(V 84) Did respondent mention s/he is a member of the **Gongshang Lianhe Hui** (Commercial and Industrial Alliance)?

- 0 INAP
- 1 Yes
- 4 Not a member
- 5 Didn't mention Gongshang Lianhe Hui
- 6 DIDN'T ASK ABOUT ORGANIZATIONS
- 9 REFUSED TO ANSWER

(V 85) If member of **Gongshang Lianhe Hui** (Commercial and Industrial Alliance), is it useful to respondent?

- 0 INAP
- 1 Yes
- 3 A little bit useful
- 4 Nice as a social activity, but not useful for business
- 5 No
- 6 DIDN'T ASK
- 9 REFUSED TO ANSWER.

(V 86) Did respondent mention s/he is a member of the **Siying Qiye Xiehui** (Private Enterprise Association)?

- 0 INAP
- 1 Yes
- 4 Not a member
- 5 Didn't mention Siying Qiye Xiehui
- 6 DIDN'T ASK ABOUT ORGANIZATIONS
- 9 REFUSED TO ANSWER

(V 87) If member of **Siying Qiye Xiehui** (Private Enterprise Association), is it useful to respondent?

- 0 INAP
- 1 Yes
- 3 A little bit useful
- 4 Nice as a social activity, but not useful for business
- 5 No
- 6 DIDN'T ASK
- 9 REFUSED TO ANSWER.

(V 88) Did respondent mention s/he is a member of the **Siying Qiye Lianyi Hui** (Private Enterprise Friendship Association)?

- 0 INAP
- 1 Yes
- 4 Not a member
- 5 Didn't mention Siying Qiye Lianyi Hui
- 6 DIDN'T ASK ABOUT ORGANIZATIONS
- 9 REFUSED TO ANSWER

(V 89) If member of **Siying Qiye Lianyi Hui** (Private Enterprise Friendship Association), is it useful to respondent?

- 0 INAP
- 1 Yes
- 3 A little bit useful
- 4 Nice as a social activity, but not useful for business
- 5 No
- 6 DIDN'T ASK
- 9 REFUSED TO ANSWER.

(V 90) Did respondent mention s/he is a member of a **professional organization**, such as physical medicine association, tourist association, boxing association?

- 0 INAP
- 1 Yes
- 4 Not a member
- 5 Didn't mention professional organizations
- 6 DIDN'T ASK ABOUT ORGANIZATIONS
- 9 REFUSED TO ANSWER

(V 91) If member of a **professional organization**, is it useful to respondent?

- 0 INAP
- 1 Yes
- 3 A little bit useful
- 4 Nice as a social activity, but not useful for business
- 5 No
- 6 DIDN'T ASK
- 9 REFUSED TO ANSWER.

(V 92) Did respondent mention s/he is a member of the **Minzhu Dang** (Democratic Party)?

- 0 INAP
- 1 Yes
- 4 Not a member
- 5 Didn't mention Minzhu Dang
- 6 DIDN'T ASK ABOUT ORGANIZATIONS
- 9 REFUSED TO ANSWER

(V 93) If member of the **Minzhu Dang**, is it useful to respondent?

- 0 INAP
- 1 Yes
- 3 A little bit useful
- 4 Nice as a social activity, but not useful for business
- 5 No
- 6 DIDN'T ASK
- 9 REFUSED TO ANSWER.

(V 94) Did respondent mention s/he is a member of a **general organization for enterprise managers** [SOE and non-SOE, such as Qiyejia Chulebu (Enterprisers' Club) or Mingxian Qiyejia Xiehui (Bright star entrepreneur's association -- for managers of superior private and SOE enterprises)]?

- 0 INAP
- 1 Yes
- 4 Not a member
- 5 Didn't mention general organizations for enterprise managers
- 6 DIDN'T ASK ABOUT ORGANIZATIONS
- 9 REFUSED TO ANSWER

(V 95) If a member of a **general organization for enterprise managers**, is it useful to respondent?

- 0 INAP
- 1 Yes
- 3 A little bit useful
- 4 Nice as a social activity, but not useful for business
- 5 No
- 6 DIDN'T ASK
- 9 REFUSED TO ANSWER.

(V 96) Did respondent mention s/he is a member of a **getihu organization** (for 'individual' enterprise owners)?

- 0 INAP
- 1 Yes
- 4 Not a member
- 5 Didn't mention getihu organization
- 6 DIDN'T ASK ABOUT ORGANIZATIONS
- 9 REFUSED TO ANSWER

(V 97) If a member of a **getihu organization** (for 'individual' enterprise owners), is it useful to respondent?

- 0 INAP
- 1 Yes
- 3 A little bit useful
- 4 Nice as a social activity, but not useful for business
- 5 No
- 6 DIDN'T ASK

9 REFUSED TO ANSWER.

Q 11.3 • What agencies you come into contact with in running your business? Which agency would you say is most helpful? What kind of help do they give you?

[Code all responses about participatory organizations in Q 11.0 above. Code only comments about government bureaus in this question.]

(V 98) Did the respondent mention the **Gongshang Ju** (Commercial and Industrial Bureau)?

- 0 INAP
- 1 Yes
- 5 No
- 6 DIDN'T ASK ABOUT BUREAUS
- 9 REFUSED TO ANSWER

(V 99) If mentioned **Gongshang Ju**, what was respondent's experience with them?

- 0 INAP
- 1 Helpful / Have good relations
- 3 Neutral -- the Bureau people did their job
- 5 Harmful -- Bureau was slow, harassed them, or demanded money
- 9 REFUSED TO ANSWER

(V 100) Did the respondent mention the **Geti Siying Ju** (Individual and Private Business Bureau)?

- 0 INAP
- 1 Yes
- 5 No
- 6 DIDN'T ASK ABOUT BUREAUS
- 9 REFUSED TO ANSWER

(V 101) If mentioned **Geti Siying Ju**, what was respondent's experience with them?

- 0 INAP
- 1 Helpful / Have good relations
- 3 Neutral -- the Bureau people did their job
- 5 Harmful -- Bureau was slow, harassed them, or demanded money
- 9 REFUSED TO ANSWER

(V 102) Did the respondent mention **any other bureaus**, such as the Public Security, Water, Electricity, Tax, Building, Sanitation?

- 0 INAP
- 1 Yes
- 5 No
- 6 DIDN'T ASK ABOUT BUREAUS
- 9 REFUSED TO ANSWER

(V 103) If mentioned **any other bureaus**, what was respondent's experience with them?

- 0 INAP
- 1 Helpful / Have good relations
- 3 Neutral -- the Bureau people did their job
- 5 Harmful -- Bureau was slow, harassed them, or demanded money
- 9 REFUSED TO ANSWER

Q 11.5 (V 104) • Have you ever asked a Party member for help?

[Check other responses in 11.x questions. Asking help from a bureau counts as a “yes.”
Can collapse “No” and “Didn’t ask” later, since often I didn’t ask to save time for other questions because the answer was probably a “no.”]

- 0 INAP
- 1 Yes.
- 5 No.
- 6 DIDN’T ASK
- 9 REFUSED TO ANSWER

Q 11.6 (V 105) • I’ve read a lot about how many private entrepreneurs have trouble with too many fees or unfair assessments. Would you say you have also had these problems?

[Can collapse “No” and “Didn’t ask” later, since often I didn’t ask to save time for other questions because the answer was probably a “no.”]

- 0 INAP
- 1 Yes.
- 5 No.
- 6 DIDN’T ASK
- 9 REFUSED TO ANSWER

Big picture questions

Q 12.0 (V 106) • What do you think your business will be like in ten years?

[Code with Q 12.1 (if response is about the relationship of PEs with the rest of society / economy) or Q 12.10 (if response is about the future of China or Chinese politics)]

- 0 INAP
- 1 Larger
- 3 The same.
- 5 Depends on the policy
- 6 DIDN’T ASK
- 8 RESPONDENT DOESN’T KNOW
- 9 REFUSED TO ANSWER

Q 12.11 (V 107-110) Four mentions: • How are PEs different from most Chinese? Or are they basically the same?

- 00 INAP
- Similarities
- 01 Are NOT different / are the same.

02 Social status was lower before, but now it's the same.

General statement of difference

10 ARE different.

Personality differences

20 Are more efficient.

21 Are more creative.

22 Are smarter.

23 Have a stronger desire to succeed.

24 Have a stronger desire to do their own thing / go their own course. / They depend on their own ideas.

25 People who work in SOEs are LAZIER.

26 Want to help society.

27 Are more brave / daring.

Money- and power-related differences

30 Are richer.

31 Have more time to think about (business / other things) because they don't have to worry about money.

32 Can resolve problems more easily because they have more money.

33 Have better guanxi than regular people, so it's easier for them to resolve problems.

34 More livelihood / FINANCIAL RISK. / If the business does poorly, they don't eat.

35 No social security / OLD AGE security.

36 Spend money on consumption -- clothing, cars, restaurants.

37 People think you are superior because you're rich.

38 Must donate money because you are rich / perceived to be rich.

Lifestyle differences

40 Are more free to do what they want.

41 Have LESS TIME for entertainment / less free time/ enjoy life less.

42 Assume more RISK in their lives.

43 Work harder / sleep less / are more TIRED.

44 Have MORE RESPONSIBILITY / stress / concern themselves with all issues affecting the firm.

45 People are watching / scrutinizing to see if I do well or poorly.

96 DIDN'T ASK

97 OTHER

99 REFUSED TO ANSWER

V (111) How many differences did the respondent mention? [Don't subtract similarities]

0-5 Number of differences

6 DIDN'T ASK

7 INAP

8 RESPONDENT DOESN'T KNOW

9 REFUSED TO ANSWER

Q 12.1 (V 112-115) Four mentions: • What kind of impact do you think private entrepreneurs have had on Chinese society?

[Code statements about the future, statements about politics, and about the privatization of SOEs in 12.10]

0 INAP

General statements:

- 10 Hard to say.
- 11 Not a big influence.
- 15 Big influence.

Positive economic influences

- 20 Have increased economic GROWTH. / Has improved people's standard of living. / Could have a big influence on China's economy if policy supports it.
- 21 Have increased EFFICIENCY / competitiveness in the economy or among SOEs./ Forced SOEs to improve.
- 22 Have created a MARKET ECONOMY.
- 23 Have made BETTER PRODUCTS and services available to people.
- 24 They pay TAXES. / Increase tax revenue for the state.
- 25 They provide EMPLOYMENT.
- 26 Provide higher paying jobs than SOEs.
- 27 Are (becoming) a large part of the economy.

Positive influences on society

- 30 Have given people opportunity to use their skills / true capabilities.
- 31 People's ATTITUDES toward the private economy are changing. / It is more acceptable to work for money / be rich.
- 32 The PEs are the vanguard of society.
- 33 Increased social stability by improving the economy.

Negative influences on economy

- 40 If a PE loses the bank's money, it's the nation's money it's losing.
- 41 SOEs (may / will) go bankrupt because of PEs (causing unemployment).

Negative influences on society

- 42 If PEs grow too quickly, the country will be DE-STABILIZED.
- 43 Decreased support of OLD PEOPLE.

- 96 DIDN'T ASK
- 97 OTHER
- 98 RESPONDENT DOESN'T KNOW
- 99 REFUSED TO ANSWER

Q 12.2 (V 116-117) Two mentions: • What do you think of Pudong / Shenzhen / Zhuhai (Special Economic Zones -- Pudong is located in Shanghai; Shenzhen is adjacent to Hong Kong and Zhuhai is adjacent to Macao, both in Guangdong Province)?

The purpose of this question was to determine if entrepreneurs saw the Special Economic Zones as models of future Chinese development. It was also an attempt to get the entrepreneurs talking about more abstract or theoretical issues. But entrepreneurs view these developments in extremely pragmatic, concrete terms, with just a bit of regionalism evident (Shanghai entrepreneurs tended to be bullish on Pudong and Shanghai).

00 INAP

Workforce

- 10 Shanghai has a better educated work force.

Surroundings

- 20 Pudong is connected to Shanghai, so it will do well.
- 21 Shenzhen is connected to HK, so it will be more successful.

Investment

- 30 Pudong is better because it has more domestic investment.

31 Pudong is better because it has more foreign investment.

Natural Attributes

40 Pudong has a lot of space.

Policy

50 Development of either / both places depends on government policy.

Other Comments

60 Shenzhen started with nothing, so it developed fast, but Pudong will ultimately develop further.

61 Shanghai will catch up to HK in 10 years.

62 Pudong is better.

96 DIDN'T ASK

98 RESPONDENT DOESN'T KNOW

99 REFUSED TO ANSWER

Q 12.3 (V 118) • What do you think are the biggest problems China faces?

[This question and 12.4 were too general, so they were dropped, but I thought I'd code the responses I did gather.]

0 INAP

1 The top leaders.

3 People's thoughts are conservative.

4 Market competition is too severe.

5 Hasn't / Doesn't think about this.

6 DIDN'T ASK

8 RESPONDENT DOESN'T KNOW

9 REFUSED TO ANSWER

Q 12.4 • Who do you think in the CCP has the best ideas to solve these problems?

Not coded.

Q 12.10 (V 119-24) Six mentions: • What kind of economic changes are required for your business to continue to grow, if any? Do you think it is possible for these changes to occur without political changes? (How is economic change influencing political change).

[If response is directly about the impact of PEs, code with 12.1.]

00 INAP

01 Not willing to answer the question because it is politically sensitive.

Disinterest in politics

05 I only care about my business, not policy.

06 Economic reform is more important than political reform. [If respondent's meaning is that economic change must come first, code as 32]

07 Haven't thought about political reform or political issues.

STATEMENTS EXPRESSING APPREHENSION OF CHANGE / ANTICIPATION OF NO CHANGE

CCP will remain in power (the two statements here are very different in their implications: people saying (10) feel the CCP should be in charge; people saying (15) think the CCP should not be in charge)

10 The country is led by the CCP and this will not change. / There will be no parliamentary or multi-party system. / The common people (*laobaixing*) support the CCP.

15 The common people (*laobaixing*) are easy to mollify / satisfy / brainwash. [The gist of this comment is that the CCP will continue to hoodwink the Chinese people into supporting them.]

Concerns for stability

17 (Government / policy) must be STABLE. / There does not need to be any change. / Must not be campaigns like the Cultural Revolution.

18 Social change / adjustment must keep pace with economic change or there will be chaos.

19 There will not be any political change. [Meaning there will not be political chaos]

STATEMENTS EXPRESSING DESIRE FOR / ANTICIPATION OF CHANGE

Change will be/ is GRADUAL (modernization theory-esque comments)

20 For real change to occur, the older GENERATION must pass from control and the younger people take over / There is a generational issue, with the change coming with the new generations.

21 Change will come with more EDUCATION, which changes people's thoughts, which takes time.

22 Change will come when people are WEALTHIER.

23 China is a big place, and therefore CHANGE IS SLOW or piecemeal.

24 Political change will come as more people enter the private economy.

General statement that economic reform causes political reform

30 Base determines superstructure, so of course the private economy will influence politics.

31 The economic changes certainly cause political change.

32 The economy must change **before** the politics change. / If the economic reforms are successful, there will be political change.

33 China's politics have **already** changed a lot since the reforms started in '78 / since the death of Mao. / Politics are changing bit by bit and will continue to do so.

34 Politics and economics change (and will continue to change) together, in parallel.

35 Economic reform stabilizes the government because people's incomes are increasing.

Legalistic change should or will happen

40 Local government must enforce the policy of economic reform / implement the central government policy.

42 Need for more LAWS and regulations. / Specific mention of stronger property rights. / Laws protecting PEs from demands for money by officials.

43 PEs should be treated FAIRLY. / PEs should be treated the same as SOEs. / PEs should be able to get bank loans.

44 There's too much corruption, and that must change.

Representative change should or will happen

50 It's not fair that the PEs have so little REPRESENTATION in the government when they are a large part of the economy. / PEs will get more representation in the gov't. / The gov't will represent them.

51 DEMOCRATIC change will / should occur. / People will get to choose who they vote for. / Voting will mean something. / The candidates should be elected by all

- the people, not the government only. / The legislature will have real power to make decisions. / There should be a multi-party system.
- 52 LEADERS. In the future, (people like me / private entrepreneurs) will be running the country. / Private entrepreneurs will run for office.

Freedom

- 55 (Need/ will have) more FREEDOM OF INFORMATION / information about foreign market conditions.
- 56 (Need/ will have) more social freedoms (like residency) / freedom in general.

How private entrepreneurs influence governance of China

- 60 Private economy has already changed politics because many kids of Party members and government workers have private businesses. Their parents protect private business to protect themselves.
- 61 Government has to consider the impact of policies on PEs because they pay a lot of TAXES.
- 62 PUBLIC OPINION. If the policy is successful, the government won't be able to change it. / If people are rich they won't want the policy changed. / If policies have a negative impact on the economy, people will respond/ complain.
- 63 (Economic reform / The private economy) **will** continue because it is good for the people of China. / The private economy will continue because the SOEs are all doing poorly.
- 64 If the government does not continue the liberalization policy, it will (fall / BE OVERTHROWN.)

Economic change

- 80 Economic reform must progress further. / If policy is looser, China will develop faster. / The private economy must be allowed to develop further.
- 81 PRIVATIZATION OF SOEs is happening / will have a major impact.
- 82 PEs will dominate the economy in 5 or 10 years. / PEs (will / must) replace SOEs. / Have become an important part of the economy.
- 83 Economy should be capitalist.
- 84 Comparison with capitalist countries: US / W. Europe, Japan, Taiwan, etc. [I need to clarify this one]
- 85 Government must take itself out of the economy / not interfere with enterprises.
- 86 Private economy development potential is limited. PEs will not take over economy because (they don't provide social welfare / they will run into the same problems SOEs have now / SOEs will continue to dominate heavy industry).
- 87 The CCP rules China and therefore the private economy cannot dominate / will not be allowed to dominate.

Other

- 90 Government must SUPPORT the PEs more with land, offices, loans.
- 91 If the (economic reform) policy continues, China will have a better reputation in the WORLD.
- 92 The LEADERS must be young, capable, educated, or have ability.
- 96 DIDN'T ASK
- 97 OTHER
- 98 RESPONDENT DOESN'T KNOW
- 99 REFUSED TO ANSWER (reason not specified)

(V 125) Did the respondent interpret "political change" in Q 12.10 to mean negative de-stabilization of the country?

0 INAP

- 1 YES
5 NO

Q 12.5 (V 126-128) Three mentions: • What do you think of MFN? Is it fair for the U.S. to raise these human rights issues? Does it help China at all that the U.S. does this?

Most PEs opposed the US position on MFN. What kind of entrepreneurs supported the US position on MFN? Does their position correlate with their education, age, size of business, exposure to foreigners? What kind of PEs saw the issue only in economic terms?

- 00 INAP
01 Not willing to answer the question because it is politically sensitive. / Not willing to talk about politics. / Not willing to discuss HR.
02 I don't understand what the U.S. means by "human rights." / Not familiar with HR issue.
03 Every year there is this MFN issue, and every year it is resolved, so it will be this year too.

Don't care about politics

- 10 It will not affect my firm, so I don't care about it.
11 I don't care about human rights (I'm too busy).
12 I don't really concern myself with this type of national issue

Statements opposing the US position

- 20 Economic and political issues should be discussed separately. / It makes no sense to connect these two issues.
21 The issue of human rights is premature for China/ China is not developed enough to worry about human rights / People need to have enough to eat before they worry about human rights.
22 China's HR are OK.
23 Emphasis on the national nature of HR: Each nation has its own history, it's own notion of human rights. / China has Chinese human rights, US has US human rights. / US human rights are not suitable to China.
24 Emphasis on the rights of nations: It is not OK for the US to make human rights demands on China. / It's a domestic issue, US should not interfere. / Nations should treat each other as equals.
25 Human rights are gradually improving in China / have improved since Mao / the Cultural Revolution.
26 The US pushes HR to de-stabilize China and thus slow its economic growth because China is a Socialist competitor to the US. / The US is doing this to hamper China's growth.
27 Chinese resources, with Japan technology, can develop without the help of the US or the West.

Statements in support of the US position

- 30 It is OK for the US to make human rights demands on China.
31 The US demands for HR in China promotes HR in China. / Helps the common people (*laobaixing*).
32 If the two issues are separated, the human rights issue will not be resolved.
33 Freedom of speech helps China./ The linkage promotes free speech.

General statements about human rights in China

- 40 People's thoughts will change as the economy changes (Marx) (i.e. human rights will improve as the economy improves).
41 Ultimately, China's human rights will be the same as the US.

Economic / trade issues

- 50 MFN not passing would hurt the US more than China.
- 51 MFN is mutually beneficial / Both countries would be hurt if it was not passed.
- 52 Trade with the US stabilizes Chinese society.
- 53 If MFN is not passed, it will hurt my business because it will hurt the whole economy.
- 54 Sino-US trade will continue without MFN because the demand still exists.

- 96 DIDN'T ASK
- 97 OTHER
- 98 I have not thought about this issue. / I am not familiar with this issue.
- 99 REFUSED TO ANSWER (reason not specified)

Q 12.8 (V 129-132) Four mentions: • What do you think about the economic and political changes in Russia?

Which entrepreneurs see the Russian reforms as positive, and which as negative? Does their opinion on this issue correspond to their opinions on other political issues? With their background?

00 INAP

General Statements

- 10 Not willing to answer the question because it is politically sensitive.
- 15 I don't care about this issue.

Negatives:

- 20 Don't know what road they're traveling on.
- 21 The government has no control. / Russia is TOO CHAOTIC. / Russia is unstable. / Their systems are not coordinated.
- 22 Negative comparison with China: Chinese model is better. Russia moves too fast. / Russians are coming to China to work or buy things, so we must be doing better than them.
- 23 The country split up and should not have.
- 24 The people don't have enough to eat. / The Russian economy is bad.
- 25 The reforms are a failure.
- 26 Russia is too dependent on the West.

Positives

- 30 They have high levels of EDUCATION.
- 31 Russians are more exposed to foreigners, so they have changed their thinking.
- 32 They have privatized all at once, and this clears the way for growth.
- 33 Positive comparison with China: They will have faster growth than China. / China is moving too cautiously and slowly.
- 34 They have allowed the private economy to dominate / have not restricted growth of private economy.
- 35 They are traveling on the same road as China. / The overall pattern is the same as China's.
- 36 The reforms are a success.
- 37 Not doing well now, but will do well eventually.
- 38 The separation of the USSR was necessary.
- 39 The reforms were necessary.

Uncertain / Neutral

- 40 Don't know yet, have to wait and see.
- 41 The change is large / deep / profound.

- 42 Russian reforms are not suited to China / China has more peasants than Russia./ Chinese are less well educated than Russians.
- 96 DIDN'T ASK
- 97 OTHER
- 98 I have not thought about this issue. / I am not familiar with this issue./ I don't know anything about Russia.
- 99 REFUSED TO ANSWER (reason not specified)

Q 12.6 (V 133-135) Three mentions: • What impact will 1997 have on the mainland? What about HK?

(The "one country, two systems" policy means China and Hong Kong will be united, but Hong Kong will maintain its capitalist economy while the mainland retains its 'socialist market' economy.)

- 00 INAP
- 05 I don't care about HK.
- Doubt about China's impact on HK
- 10 Will cause some economic disorder for HK.
- 11 Unclear what the impact on HK will be. / Depends on gov't policy.
- 12 Need foreign pressure to make China retain the "one country, two systems" policy.
- 13 Will limit HK's freedoms: press, soeoch, etc.

Neutral or Positive Assessments

- 20 It's very natural for HK to return to China. / HK is part of China. / People in both HK and mainland welcome the reunion.
- 21 China will not change HK's system. / I believe the "one country, two systems" policy will be upheld. / No impact on HK.
- 22 Good impact on HK. / Better business opportunities for HK.
- 23 Good impact on mainland.
- 24 Increase the international status of the mainland.
- 25 No impact on mainland.
- 96 DIDN'T ASK
- 97 OTHER
- 98 I have not thought about this issue. / I am not familiar with this issue.
- 99 REFUSED TO ANSWER (reason not specified)

Q 12.7 • What do you think about the situation in Taiwan? Is it both a political and an economic success?

Not coded. Dropped because too sensitive.

Questions about the entrepreneur

Q 10.0 (V 136) • What year were you born?

- 00 INAP
- 10-78 Year born in.
- 96 DIDN'T ASK

99 REFUSED TO ANSWER

10.1 • How much schooling have you had?

(V 137)

01 elementary
02 middle school
03 high school
04 jr. college (dazhuan)
05 university
96 DIDN'T ASK
99 REFUSED TO ANSWER

(V 138) Was the respondent sent down? [During the Cultural Revolution, many young people from the cities were 'sent down' to the countryside for several years to experience rural life.]

0 INAP
1 Yes
5 No
6 DIDN'T ASK
9 REFUSED TO ANSWER

(V 139) Is the respondent partly self-educated or continuing educated (for example, in night school, as opposed to a continuous, full-time schooling)?

0 INAP
1 Yes
5 No
6 DIDN'T ASK
9 REFUSED TO ANSWER

Q 10.4 • What did your grandfathers, grandmothers or (pre-revolutionary) parents do?

(V 140-143) Four mentions: one for each grandparent

00 INAP
Black categories
10 KMT soldier / official
11 Capitalist
12 Xiaoyezhu (small-scale business owner)
13 Landlord
15 Qing dynasty official
Other
20 Intellectual (including teacher)
21 Worker
22 Peasant
23 Other non-Red, non-Black category
Red Categories
30 CCP soldier

- 31 CCP cadre
- 96 DIDN'T ASK
- 98 DON'T KNOW
- 99 REFUSED TO ANSWER

(V 144) If capitalist / xiaoyezhu (small-scale business owner): What impact did having a capitalist parent have on your decision to start your own business?

- 0 INAP
- 1 Had a positive impact. / Had an impact because I was a tail of capitalism.
- 2 Did not have an impact.
- 3 Had a negative impact. / Parents told me not to start my own firm.
- 6 DIDN'T ASK
- 9 REFUSED TO ANSWER

Q 10.4.1 • Have you ever been abroad?

Exposure to foreigners may be important in influencing the entrepreneurs' political attitudes.

(V 145-148) Four mentions: What countries have you been to?

- 00 INAP
- Democracies
- 01 U.S. or a democratic European country
- 02 Japan
- 03 Other democracy
- Non-communist Chinese Asia
- 10 Hong Kong
- 11 Singapore
- 12 Taiwan
- Non-communist Asia
- 30 Other Southeast Asian country (Thailand, Malaysia, South Korea, etc.)
- Communist
- 40 Eastern block / former Soviet country
- 41 Vietnam or North Korea
- 96 DIDN'T ASK
- 97 OTHER
- 99 REFUSED TO ANSWER

(V 149) Number of times gone to a foreign country (i.e. if visited five countries on one trip, count as 5)

- 00 Haven't been abroad
- 01-05 Number of times
- 06 More than five times
- 96 DIDN'T ASK
- 99 REFUSED TO ANSWER

(V 150) Number of countries been to.

- 00 Haven't been abroad
- 01-09 Number of countries
- 96 DIDN'T ASK
- 99 REFUSED TO ANSWER

Q 10.5 (V 151) • Are you, or have you ever been, a member of the Communist Party?

- 0 INAP
- 1 Yes
- 5 No
- 6 DIDN'T ASK
- 9 REFUSED TO ANSWER

(V 152) If yes, has it helped you with your business?

- 0 INAP
- 1 Yes
- 5 No
- 6 DIDN'T ASK
- 9 REFUSED TO ANSWER

Q 10.8 (V 153-155) • How are your **best friends** employed? Three mentions in order of importance / closeness.

I'm interested in the extent to which PEs are a group and interact with each other, and how well connected they are to Party cadres.

- 00 INAP
- 01 I don't have many friends.
- 05 I have all kinds of friends.
- 10 Workers at SOEs.
- 11 Managers at SOEs.
- 12 Professionals: Lawyers, teachers, technologists, doctors.
- 13 Intellectuals: Professors, writers, artists.
- 14 Workers in private enterprises.
- 15 Managers of collective enterprises (jiti).
- 20 My workers.
- 21 My customers.
- 30 CCP cadres.
- Private businesspeople
- 40 Private entrepreneurs.
- 41 My partners.
- 42 Getihu.
- 96 DIDN'T ASK
- 97 OTHER
- 98 DOESN'T KNOW
- 99 REFUSED TO ANSWER

Q 10.7 • Are **any** of your friends private entrepreneurs? Party cadres?

(V 156) Private entrepreneurs? [In this question, getihu - 'individual businesspeople' are included as "private entrepreneurs."]

- 0 INAP
- 1 YES
- 5 NO
- 6 DIDN'T ASK
- 9 REFUSED TO ANSWER

(V157) Party cadres?

- 0 INAP
- 1 YES
- 5 NO
- 6 DIDN'T ASK
- 9 REFUSED TO ANSWER

Questions about the whole interview

(V 158) • Openness/ frankness of whole interview.

- 0 INAP
- 1 Extremely disingenuous, frequently gave answers that were implausible or clear restatements of party policy, exhibited nervousness during interview, refused to answer questions.
- 2 Many disingenuous or implausible answers, tense.
- 3 Occasionally disingenuous, some nervousness.
- 4 Almost completely frank.
- 5 Extremely frank, no nervousness.

(V 159) • How many times / in how many questions were other countries mentioned, aside from the "Have you gone abroad / do you have relatives abroad"?

- 0-4 Number of times
- 5 Five or more times
- 6 INAP

(V 160) • How well informed is the interviewee about conditions in other countries?

- 00 INAP
- 01 Not knowledgeable. Does not talk to foreigners often, has not been abroad and does not communicate with friends or relatives abroad. Answers do not mention other countries unless asked directly about them and then do not reflect a very good understanding of conditions there.
- 03 Somewhat knowledgeable. Knows a few things about other countries; has talked to people who have been abroad or is in infrequent contact with relatives abroad (once every several years). Answers reflect a pretty good understanding of the conditions in other countries.
- 04 Lots of foreign friends, but hasn't gone abroad. Solid knowlege of outside China, but not especially deep or broad.
- 05 Very knowledgeable. Has talked extensively to foreigners, traveled abroad, or is in frequent contact with relatives abroad (exchanges letters, phone calls several

times a year). Answers reflect subtle understanding or deep knowledge of other countries.

- 06 Extremely knowledgeable. Has lived abroad or traveled extensively abroad.
- 96 COULDN'T TELL FROM INTERVIEW

(V 161) Is the interview a control?

- 0 INAP
- 1 SOE manager
- 2 TVE manager / jiti manager
- 3 PE manager, non-owner
- 4 PE owner, non-founder
- 5 PE
- 6 Stock owner of TVE, collective with lots of others (ie with the government, the workers)

(V 162) Did respondent **mention** s/he feels people are less willing to buy PE products / Does respondent disguise the fact that the firm is private? [Might be brought up in Q 9.1]

- 0 INAP
- 1 Yes
- 5 No

(V 163) What views did the respondent express regarding Tiananmen (6/4/89)?

- 0 INAP (not discussed)
- 1 Approve entirely (of students / protestors)
- 2 Approve of goals, disapprove of technique
- 3 Sympathize with protestors, but disapprove
- 4 Mixed. Felt some protestors were patriotic, some troublemakers.
- 5 Disapprove entirely (of protestors)
- 9 REFUSED TO ANSWER

(V 164) Did the respondent think the PEs are gaining or will soon gain political power in China?

- 0 INAP / Doesn't think in these terms / Doesn't think about this issue.
- 1 not gaining power
- 3 gaining moderate power
- 5 gaining substantial power
- 6 COULDN'T TELL FROM INTERVIEW

(V 165) What is the respondent's attitude toward the Communist Party's governance of China?

- 0 INAP
- 1 Highly negative
- 2 Somewhat negative
- 3 Neutral
- 4 Somewhat positive
- 5 Highly positive
- 6 COULDN'T TELL FROM INTERVIEW

Extra Questions (Asked only if opportunity arose)

(V 166-168) Three mentions: What will happen after Deng dies?

- 0 INAP
- 10 Policy will turn against private businesses.
- 20 Policy will remain the same. / Policy will not change because it is good for China.
- 21 Succession will go smoothly. / There will not be luan because that is too costly for China.
- 22 I want the policy to continue.
- 30 Young people should become the LEADERS. / The old people are no good. / The leaders must be experts. / Some retired old leaders are not rich and are resentful of the change.
- 31 Could be massive political change like in Russia.
- 96 DIDN'T ASK
- 98 Don't know / Hard to say.
- 99 REFUSED TO ANSWER

(V 169) • Will China split apart like Russia?

- 00 INAP
- 10 No, because it is not made up of separate ethnic areas.
- 11 No, because China's government is doing better than USSR's was. / Chinese people support the reforms, are happy, getting richer, etc.
- 20 Maybe.
- 30 Yes
- 96 DIDN'T ASK
- 98 Don't know / Hard to say.
- 99 REFUSED TO ANSWER

(V170) • Are the PEs gaining economic strength?

- 0 INAP / Doesn;t think about it.
- 1 No. (Doesn't see much economic change likely. Sees situation as stable or PEs as embattled).
- 3 Moderate
- 5 Substantial (Thinks PEs are making large strides, are the future; SOEs are doomed, etc.

(V171) • Sex

- 1 Female
- 5 Male

(V172) • Is the respondent a People's Representative?

- 0 INAP
- 1 Yes
- 4 No
- 5 Didn't mention
- 6 Didn't ask

(V173) • If a People's Representative, does the respondent think it's useful?

- 1 Yes
- 3 A bit
- 4 Nice as a social activity, but not useful
- 5 No
- 6 Didn't ask
- 9 Refused to answer

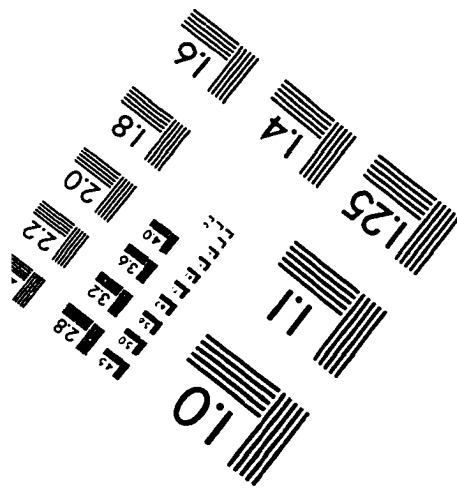
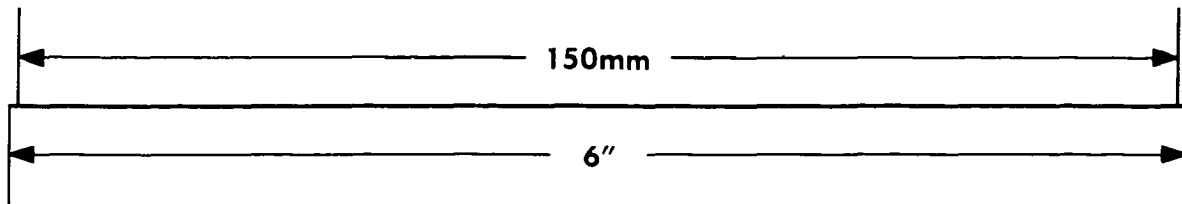
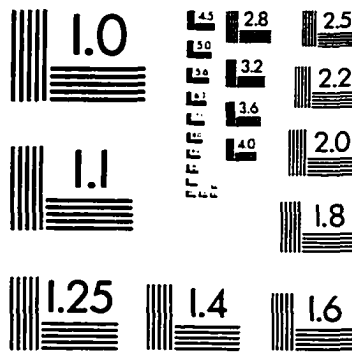
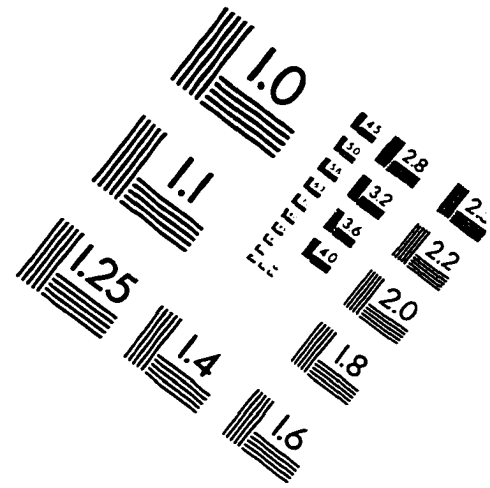
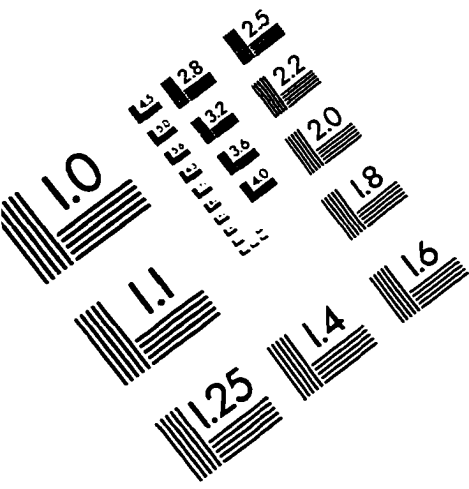
(V174) • Location of business

- 1 Shanghai area
- 2 Hangzhou area
- 3 Beijing area
- 4 Other

(V175) • Type of area business is in

- 1 Urban (city with more than 700,000 residents)
- 2 Township, ex-urban, etc. City with fewer than 700,000 residents.

IMAGE EVALUATION TEST TARGET (QA-3)



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