

## RESEARCH NOTE\*

# Institutional Change Under the Impact of an Evolving Private Sector in the PRC – The Case of Opening the Party to Private Entrepreneurs

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### I Institutional Change and Entrepreneurial Power: Assessing the Debate

Along with the renunciation of central planning, declining capacities of the Chinese party-state in the local political institutions have at least since the mid-1990s become visible. From a regime-centred perspective, the shifting of resources and authority from higher to lower levels of the party-state and the new local alliances between officials and private entrepreneurs attracted much attention.<sup>1</sup> The societal perspective, on the other hand, stressed the greater autonomy and power of citizens and emerging social groups like the private entrepreneurs, which would further push back the power of the party-state. Nonetheless, the Chinese leadership showed no signs of principally including the political institutions of communist power in the reform project. The political demands of a Leninist party-state were instead associated with stable organisational structures and ideological foundations, which would ensure party leadership over the bureaucracy and society. Only since Jiang Zemin's speech held at the 80<sup>th</sup> anniversary of the Chinese Communist Party (CCP) on the first of July 2001 ("qi yi" *jianghua*) a possible alteration in this strategy seems possible. Jiang was in fact the first Chinese leader to mention the profound changes of the social structure in China caused by the economic privatisation process and to stress the importance for the party to secure its power through organisational and ideological adaptation. More precisely, Jiang declared most of the entrepreneurs, managers and technical staff in the private and foreign sectors as builders (*jian-shezhe*) of socialism with Chinese characteristics, ju.6( a1.7725198 0 TD-0.5002 Tc0.1868 (like of taccadiracTj

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\* This article is based on introductory reflections to the broader research project "Party Reforms and Entrepreneurial Power: An Analysis of Institutional Change and Continuity in Post-Jiang China".

<sup>1</sup> See prominently the anthology edited by Andrew G. Walder, *The Waning of the Communist State. Economic Origins of Political Decline in China and Hungary* (Berkeley: University of California Press, 1995) and Susan L. Shirk, *The Political Logic of Economic Reform in China* (Berkeley: University of California Press, 1993).

contribution and further proposed the admittance of these "outstanding elements from other sectors of the society" (*shehui qita fangmian de youxiu fenzi*) to join the party.<sup>2</sup>

After the amendment of the Party Constitution at the 16<sup>th</sup> Party Congress in November 2002, which officially confirmed Jiang's proposals and included their theoretical basis, his "important ideas of the 'Three Represents'" (*san ge daibiao zhongyao sixiang*), in the preamble, and the first following reform steps by the new leadership, such as adding a clause for the protection of private property in the state constitution, this new dimension of party adaptation undoubtedly deserves a closer look. Not only does it mean an official acknowledgement of and responsiveness to the new power of the private economy and its entrepreneurs. It might also have laid the foundation for profound changes of the institutional arrangements in the Chinese political system. This first of all leads to the question concerning the actual developments in the vague and often contradictory institutional relationship between the party and the private sector. According to the Chinese leadership, the opening of the party to private entrepreneurs should not only enable it to represent a broader scope of the increasingly differentiated society, but also strengthen party power and maintain the party's leadership position by co-opting new powerful elites that offer important skills and resources in the modernisation process.<sup>3</sup> Will the CCP thus be able to improve central control and monitoring over the private sector and maintain its legitimacy as the only representative of society's interests? Or will private entrepreneurs, on the contrary, push for new institutional arrangements to represent their interests in the party-state and demand a change of party politics? Could Jiang's announcements to reform the party even be seen as a turn in leadership policies that could pave the way for institutional reforms that would allow a more pluralist distribution of political power? In short, these questions centre on the changes in the relationship between the CCP and the private entrepreneurs as becoming manifest by changes in the institutional arrangements of the political system, stemming from the formation of entrepreneurial power.

Due to the party's uncompromising political position thus far, political studies have barely taken into account the institutional party – private sector relationship in China. Instead, most research focused on the new group of private entrepreneurs as a social phenomenon and their relation to the state. Especially in the mid-1990s, a paradigm of autonomy dominated related studies. The idea of an emerging civil society in China however, which seemed plausible in light of the collapse of the Soviet Union and the communist regimes in Eastern Europe, was soon given up. Discussion rather moved on to defining the character and potential of Chinese cor-

<sup>2</sup> Jiang Zemin, "Zai qingzhu zhongguo gongchandang chengli bashi zhounian dahui shang de jianghua" (Speech at the grand gathering marking the 80<sup>th</sup> founding anniversary of the Chinese Communist Party), in: *Renmin Ribao*, 02.07.2001, at <http://www.people.com.cn/GB/shizheng/16/20010702/501591.html>; 11.02.2004. (For English version see [http://english.peopledaily.com.cn/200107/01/eng20010701\\_73919.html](http://english.peopledaily.com.cn/200107/01/eng20010701_73919.html).)

<sup>3</sup> The argument was more clearly developed by Jiang Zemin's political report at the 16<sup>th</sup> Party Congress. See "Jiang Zemin tongzhi zai dang de shiliu da shang suoza baogao quanwen" ("Full text of the report comrade Jiang Zemin delivered at the 16<sup>th</sup> Party Congress"), <http://www.cass.net.cn/webnew/yaowen/16da/0.htm>; 11.02.2004.

poratism in the matters of societal autonomy.<sup>4</sup> With reference to the group of private entrepreneurs, prominently Pearson did away with the expectations of the new business elite forming an independent political force. Her studies instead showed that Chinese entrepreneurs tend to build informal – personalistic and clientelist – ties to the state and engage in the corporatist arrangements created by the state instead of promoting democratisation.<sup>5</sup> In recent years the growing economic and social importance of private entrepreneurs as well as their increasing political and ideological acknowledgement by the Chinese leadership has given rise to more differentiated research about the group's political behaviour and orientations.<sup>6</sup> Heberer, in his study on private entrepreneurs in China and Vietnam, shifted the analytical perspective towards the concept of entrepreneurs as a strategic group. He points to their social and political functioning as an interest group acting in a widening social space. Although still lacking sufficient political power or even the will to become agents of systemic political change, they yet appear as an organised pressure group eager for political participation.<sup>7</sup> The transformative capacity of the Chinese private entrepreneurs might be questionable, especially considering the exceeding structural and behavioural heterogeneity among the group, but such studies indeed constitute the basis for assessing the entrepreneurial impact on the party-state's institutional arrangements. Hence, in light of the increasing knowledge about the group of the private entrepreneurs and their impact on the local socio-political environment, the role and implications of Chinese corporatism could also be reconsidered. Particularly since Jiang's speech, trade chambers and business associations have gained new importance in China as channels for interest representation. This calls for further analysis of the institutional links between the party centre, local party and government cadres and private entrepreneurs. Thus, unlike in the research focusing on state-society relations, the changing role and interests of the party organisation should be given a more prominent role.

<sup>4</sup> Gordon White, Jude Howell and Shang Xiaoyuan, *In Search of Civil Society. Market Reform and Social Change in Contemporary China* (Oxford: Clarendon Press, 1996); Anita Chan, "Revolution or corporatism? Workers and trade unions in post-Mao China", in: David S.G. Goodman and Beverley Hooper, eds., *China's Quiet Revolution. New Interactions Between State and Society* (Melbourne: Longman Cheshire, 1994), pp. 162-193; Kristen Parris, "Private Entrepreneurs as Citizens: From Leninism to Corporatism", in: *China Information*, vol. 10, nos. 3/4 (Winter 1995/Spring 1996), pp. 1-28. A well-founded overview of the debate gives Yijiang Ding, "Corporatism and Civil Society in China: An Overview of the Debate in Recent Years", in: *China Information*, vol. 12, no. 4 (Spring 1998), pp. 44-67.

<sup>5</sup> Pearson, Margaret M., *China's New Business Elite. The Political Consequences of Economic Reform*, (Berkeley: University of California Press, 1997) and "China's Emerging Business Class: Democracy's Harbinger?", in: *Current History*, vol. 97 (Sept. 1998), pp. 268-272.

<sup>6</sup> Since Jiang Zemin's speech in July 2001 a lot more Chinese research has also been published. See for example *Zhongguo siying jingji nianjian 1997-1999 (Yearbook of the Chinese Private Economy)*, ed. by Zhonghua quanguo gongshangyelianhe hui/Zhongguo min (si) ying jingji yanjiuhui (Committee of the All-China Federation of Industry and Commerce/Research committee on the Chinese people-(privately)operated economy) (Beijing: Huawen chubanshe 2001). Unfortunately, the new yearbook published at end of last year was not available to me at the time of writing.

<sup>7</sup> Thomas Heberer, *Unternehmer als strategische Gruppen: Zur sozialen und politischen Funktion von Unternehmern in China und Vietnam*, (Hamburg, 2001) (Thomas Heberer, *Private Entrepreneurs in China and Vietnam: Social and Political Functioning of Strategic Groups* (Leiden: Brill, 2003)).

Among the very few related studies favouring a party perspective, Dickson's analysis of the adaptability of Leninist parties offers an especially comprehensive approach. Dickson analyses the establishment of corporatist links to the private sector and the co-optation of new economic and social elites as adaptation strategies of the CCP to better integrate the party with the rapidly changing economic and social environments and with key groups of society.<sup>8</sup> In his latest work, his conclusion that these strategies are successful, at least for the time being, is supported by survey projects he carried out in 1997 and 1999 to investigate and compare political beliefs and behaviours of private entrepreneurs with or without party membership as well as of local party and government officials.<sup>9</sup> Dickson's attempt to combine a macro approach of party change with an agent perspective through an analysis of links between the party and the private entrepreneurs makes his latest work especially remarkable. However, by considering these links mainly from the perspective of strategic leadership decisions to adapt the party to a changing environment, that analysis, in my view, is still short of a sufficient connection to the micro level. What is missing is a picture of the institutional arrangements of party control, in addition to their impact by informal arrangements at the local level. This could point to the actual distribution of power in the party-state instead of to the potential of entrepreneurs becoming agents of political change alone.

Especially when one considers the latest initiatives of the party leadership, it seems that the discussion of prospects for democratisation by politically active economic and social elite should still be postponed in favour of further analysis of the direct consequences of the growing entrepreneurial significance within the regime's institutions.<sup>10</sup> It is suggested here that an institutional approach might bring about the two dimensions of change from inside and outside the regime more clearly. To my knowledge, there is still no sufficient picture of the distribution of power and authority as well as the modes of representation<sup>11</sup> that have emerged between the party centre, the private sector including its agents and the local officials interacting with the private sector at the local level.<sup>12</sup> More precisely, in this case power points to the institutional structures and functions of party control mechanisms under the influence of entrepreneurial power. Here I shall differentiate between the structures and mechanisms provided by the party centre and the actual arrangements carried out by

<sup>8</sup> Bruce J. Dickson, *Democratization in China and Taiwan. The Adaptability of Leninist Parties*, (Oxford: Clarendon Press, 1997) and "Cooptation and Corporatism in China: The Logic of Party Adaptation", in: *Political Science Quarterly*, vol. 115, no. 4 (2000/01), pp. 517-540.

<sup>9</sup> Bruce J. Dickson, *Red Capitalists in China. The Party, Private Entrepreneurs, and Prospects for Political Change* (Cambridge: Cambridge University Press, 2003).

<sup>10</sup> A similar argument can be found in Andrew G. Walder, "The Decline of Communist Power: Elements of a Theory of Institutional Change", in: *Theory and Society*, vol. 23, no. 2 (April 1994), pp. 297-323.

<sup>11</sup> For an approach of identifying institutional change along the elements of power and representation see Gerhard Göhler, "Wie verändern sich Institutionen? Revolutionärer und schleichender Institutionenwandel", in: Göhler, ed., *Institutionenwandel* (Opladen: Westdeutscher Verlag, 1997), pp. 21-56.

<sup>12</sup> The notion of "party centre" here refers to the leading party organs determining the political and ideological line in the party-state. It thus represents an agent of institutional change that shapes the framework in which the local institutional arrangements develop. It certainly is reciprocally influenced by the occurring changes.

the local officials. Representation concerns political participation of private entrepreneurs and local officials, but also the integrative function of party ideology. Although the focus here lies on the institutional mechanisms, aspects of the political behaviour and perceptions of the corporate or individual agents that fill these structures or rather act inside the institutional framework will also be included. The corresponding definition of institutions is one concentrating on the rules that constrain behaviour instead of political bodies or organisations.<sup>13</sup> In the case of political institutions the rules or sets of rules serve the making and implementation of binding decisions, which are relevant to society as a whole, and channels that symbolically represent and lead a society's performances regarding its orientation.<sup>14</sup> Areas of research will be the party organisations in private enterprises, the private sector's business associations and political positions open to private entrepreneurs as well as the CCPs personnel management system.<sup>15</sup> At the same time I will also take into account the informal institutional arrangements that emerged between the local officials and the private entrepreneurs. The period from the mid-1990s to Jiang Zemin's speech in July 2001 will be surveyed and in a second step, developments that can be identified since that time. Taking this research project into analytical consideration, I will continue with a look at aspects of change in the relationship between the CCP and the private entrepreneurs that have thus far been reflected on in this context.

## II     Expanding Party Power into Private Enterprises

The maintenance of party power in the course of the gradual reform strategy requires a very careful adaptation of the political control mechanisms so that the CCPs authority over politics is preserved.<sup>16</sup> One of the main reasons the traditional control mechanisms, that Walder had summed up as organized dependence, monitoring capacity and sanctioning capacity,<sup>17</sup> are declining and need to be altered is certainly connected to consequences of the rapidly growing private sector, like the growth of economic alternatives, social change, and emerging interest groups. The question of how the party leadership will decide upon the establishment of political control in the private sector is therefore crucial to evaluate the direction of institutional change

<sup>13</sup> Such definitions that clearly distinguish between agents and rules of institutional change go back to approaches of the New Institutional Economics, most prominently Douglass C. North, *Institutions, Institutional Change and Economic Performance* (Cambridge: Cambridge University Press, 1990). They have become widely accepted in political science theory. For an overview see B. Guy Peters, *Institutional Theory in Political Science. The "New Institutionalism"* (London: Continuum, 1999).

<sup>14</sup> See Göhler, "Wie verändern sich Institutionen?", p. 29.

<sup>15</sup> Here some valuable research was undertaken in recent years that acknowledge the crucial role of personnel management for the CCPs political power. See for example Maria Edin, "State Capacity and Local Agent Control in China: CCP Cadre Management from a Township Perspective" in: *The China Quarterly*, no. 173 (March 2003), pp. 35-52 and Kjeld Erik Brødsgaard, "Institutional Reform and the *Bianzhi* System in China", in: *The China Quarterly*, no. 170 (June 2002), pp. 361-386.

<sup>16</sup> That authority includes the party's monopoly over the legitimisation of the political system, the recruitment of political leadership and the formulation and implementation of policy. See Samuel P. Huntington, "Social and Institutional Dynamics of One-Party Systems", in: Samuel P. Huntington and Clement Moore, eds., *Authoritarian Politics in Modern Society: The Dynamics of Established One-Party Systems* (New York: Basic Books, 1970), p. 41.

<sup>17</sup> Walder, "The Decline of Communist Power", pp. 300-305.

within the political system. The party's strategy towards the private sector has hitherto remained fairly vague and the impact of informal institutions beyond the party centre's reach seemed to increase. Since the party's latest strategic decisions, highlighted by Jiang Zemin's speech on the first of July 2001, grow more coherent, the party leadership surprisingly appears to recollect its traditional means of establishing institutional links with society and now extensively strives for building grassroots organisations (*jiceng zuzhi*) in private enterprises. There were earlier efforts in the mid-1990s when a regulation by the Central Organisation Department explicitly also urged all organisations of the "non-public sector" with more than three party members to build such organisations. The results were disappointing. According to data made available in party organs after Jiang's speech, by 2001 only 0.9% of private enterprises had followed the appeal. Many even lacked the preconditions, as 86% of the registered 1.76 million private enterprises in that year<sup>18</sup> didn't even have a single party member among their employees.<sup>19</sup> Furthermore, the existing organisations are in very bad shape. They rarely fulfil any of the tasks intended due to their official position as the "political core" in the enterprises.<sup>20</sup>

From a systemic point of view, a functional weakness such as this must be regarded as an institutional problem of local party and grassroots organisations in the modernising Chinese party-state. Due to administrative reforms like the organisational and functional separation of party and government, economic decision-making in the party-state continuously shifted towards government organs. Although party organs might still interfere in relatively undefined "important matters", the room for direct party intervention has generally declined. Additionally, the ideological work lost relevance in favour of the pursuit of economic development. The grassroots organisations responsibilities became increasingly indistinct. Hence, party-building turned out to be a problem even in the state-owned enterprises (SOEs). When the responsibility system of directors and managers (*changzhang jingli fuzhi*) was introduced in the mid-1980s, the managers of SOEs became solely responsible for production and management. The transformation of some enterprises into share-

<sup>18</sup> In Chinese statistical data, only enterprises with at least eight employees fall into the category of private enterprises (*siying qiyi*). The "non-public" sector on the other hand also comprises self-employed individuals (*getihu*), foreign invested enterprises and different kinds of mixed ownership forms.

<sup>19</sup> See Yin Fuying, "Jiaqiang siying qiyi dang jianshe gongzuo, cujin siying jingji jiankang fazhan" ("Strengthening Party Building in Private Enterprises and Promoting a Healthy Development of the Private Economy"), in: *Zhonggong dangshi yanjiu*, no. 5 (2001), p. 51.

<sup>20</sup> The official tasks don't differ much from those of other grassroots organisations. The party press names responsibilities like propagating and implementing the party's political line, programmes and guidelines; instructing and monitoring the compliance with the law and regulations; educating and monitoring party-members; political-ideological work with the workforce; leadership over the mass organisations and support of economic development. See Zhang Jianjun et al, "Dangjian gongzuo xin lingyu de jiji tansuo. Anping xian feigongyou qiyi dangjian gongzuo diaocha" ("Active Research in the New Field of Party Building. Inquiry of Party Building in the Non-public Enterprises in Anping District"), in: *Qiushi*, no. 7 (2002), p. 37 and Zhonggong zhongyang tongzhanbu jingjiju ketizu (Project team of the economics office of the Central Committee's United Front Department), "Guanyu jiaqiang dui feigongyou zhi jingji renshi zhengzhi yindao wenti de diaoyan baogao" ("Research Report Regarding Problems With Strengthening Political Leadership Over People of the Non-public Sector"), in: *Zhongguo siying jingji nianjian 1997-1999*, cit. a., p. 372.

holding corporations even changed the property structures entirely and made the board of trustees the highest decision-making body. The measures to improve efficient economic decision-making not only abolished the space for intervention of the party organisations inside the SOEs, but also their intermediary function between bureaucracy and enterprises.<sup>21</sup> Additionally, the low level of management and production related knowledge among the party cadres intensified the obvious power-shift towards the management. One way to overcome the following debate over power structures in SOEs was a personnel or sometimes even organisational integration of the grassroots organisations with the management.<sup>22</sup> The results were, among others, a deep demoralisation of party members and a general decline in party membership among the workforce.<sup>23</sup> In the course of the latest campaign for "Strengthening Party Building" since 2001, the party leadership has taken counter-measures against the institutional and organisational decay. Next to cadre education programmes, the grassroots organisations shall regain their "political core" position and party organs stress their closeness to the workforce.<sup>24</sup> However, considering the forced cooperation with the management, the grassroots organisations' institutional role in the area of conflict between management and workforce remains unclear.

Coming back to the project of party-building in private enterprises, the following dilemma arises: On the one hand the clear power structures inside the enterprises force the party organisation to define a cooperative relationship with the entrepreneurs in order to make party-building possible at all. In fact, party organs are trying hard to convince entrepreneurs and party members in private enterprises alike that the grassroots organisations' main function was to support enterprise development. One article in *Qiushi* in 2002, for example, praises party member's talents and the grassroots organisations' opportunities to offer help in the field of resource allocation. The authors even suggest an integration of party work and enterprise bureaucracies.<sup>25</sup> On the other hand the party's search for consensus with the entrepreneurs points to the erosion of the party organisations' traditional political identity in the evolving market-economy with increasingly diversified interests of employers and employees. Party theoreticians are alarmed by the ideological confusion of party members about their political role and possible functions in the enterprises.<sup>26</sup> The party is clearly bound to redefine its "political core" position in enterprises under the new circumstances. But what functions do in fact remain with political mobilisation having become invalid? And what could constitute an appropriate political role?

<sup>21</sup> See Chen Feng and Gong Ting, "Party versus Market in Post-Mao China: The Erosion of the Leninist Organization from Below", in: *Journal of Communist Studies and Transition Politics*, vol.13, no.3 (Sept. 1997), p. 155.

<sup>22</sup> See You Ji, *China's Enterprise Reform. Changing State/Society Relations after Mao* (London: Routledge, 1998), pp. 57-54 and Chen and Gong, "Party vs. Market", pp. 156-157.

<sup>23</sup> See You, *China's Enterprise Reform*, pp. 90-100 and Chen and Gong, "Party vs. Market", pp. 158-162.

<sup>24</sup> See Wu Bangguo, "Kaichuang guoyou qiyang dangjian gongzuo xin jumian" ("Creating a New Situation of Party Building in State-owned Enterprises"), in: *Qiushi*, no. 8 (2002), pp. 3-8.

<sup>25</sup> Zhang et al, "Dangjian gongzuo xin lingyu de jiji tansuo", p. 38.

<sup>26</sup> See Zhonggong zhongyang tongzhanbu jingjiju ketizu, "Guanyu jiaqiang du feigongyou zhi jingji renshi zhengzhi yindao wenti", p. 372 and Yin, "Jiaqiang siying qiyang dang jianshe gongzuo", p. 51.

Surely these are very sensitive questions as they touch party identity in general (see also section IV below).

In the light of the entrepreneurs' freedom in enterprise policies on the one side and the dependency of the CCPs political power position on the development of the private sector in macro economic terms on the other, the political control function of party organisations in private enterprises is clearly not comparable with the traditional party control mechanisms of such institutional links.<sup>27</sup> Still, in the one-party system a strong organisational presence in the private enterprises constitutes an important means for the CCP to define its political line vis-à-vis the private sector in the future. In the first instance, increasing numbers of party members and party organisations will create a flow of information to higher levels and strengthen the CCPs monitoring capacity.<sup>28</sup> The co-optation of private entrepreneurs themselves would be especially advantageous in this respect. The space of intervention nonetheless remains restricted. The focus of the strategies of party-building and co-optation of private entrepreneurs thus shifts from the issue of political control in the private sector to that of strengthening the CCPs political power in the party-state. Eventually, the strategy of co-optation, and supposing the employees in the private sector will also consider the significance of a party membership due to their dependence on the entrepreneurs, could bring about a whole new source for highly qualified cadres in the economic field. As it is widely known, one of the most crucial problems for the party organisation and its power position in the economic modernisation process is the need to equip its cadres with sufficient knowledge in the field of technology and management.<sup>29</sup> The latest State Council decision about "strengthening talent work" from December last year now openly calls for drawing talents from the new social strata, most prominently the private sector, into party and government work.<sup>30</sup> Additionally, this would mean that private entrepreneurs and their employees would become part of the party-state bureaucracy and thus part of the personnel management and control system (see section III below).<sup>31</sup>

Furthermore, party organs extensively propagate the possible political-ideological impact of the party organisations on the entrepreneurs. If this will show any results at all remains quite doubtful, especially as the party members are simultaneously

<sup>27</sup> This is also recognized by Chinese authors. See Yin, "Jiaqiang siying qiyang dang jianshe gongzuo", p. 53 and Pi Qiansheng, "Yu shi ju jin you suo zuo wei – bu duan tisheng feigongyouzhi jingji zuzhi de dangjian gongzuo shuiiping", ("Accomplishing Things by Entering with Time – Steadily Increase the Level of Party Building in Non-public Economic Organisations"), in: *Qushi*, no.18 (2003).

<sup>28</sup> In 2001, the United Front Department found that the little knowledge about entrepreneurial interests constituted a big problem for defining political work in private enterprises. See Zhonggong zhongyang tongzhanbu jingjiju ketizu, "Guanyu jiaqiang dui feigongyou zhi jingji renshi zhengzhi yindao wenti", p. 370.

<sup>29</sup> For an assessment of the situation in the countryside see for example Lu Hao, ed., *Yi "san ge dai-biao" wei gangling quanmian jiaqiang dang de jianshe* (The "Three Represents" as a program for extensively strengthening party-building) (Beijing: Dangjian duwu chubanshe, 2000), pp. 202f.

<sup>30</sup> See "Zhonggong zhongyang guowuyuan guanyu jin yibu jiaqiang rencai gongzuo de jueding" ("Central State Council Decision regarding strengthening talent work" (26.12.2003), in: *Zhongguo dangjian yanjiu* (Internet edition: <http://www.zgdjyj.com/dxplddjs/view.asp?id=803>; 11.02.04).

<sup>31</sup> For a well-founded overview of the different motives of the CCP to invite private entrepreneurs to join the party see Heike Holbig, "The Party and Private Entrepreneurs in the PRC", in: *Copenhagen Journal of Asian Studies*, no. 16 (2002), pp. 30-56.

taught to build a "friendship"-relation to the entrepreneurs or investors.<sup>32</sup> On the other hand, this points to the symbolic function of the institutions of party power. A formal upholding of traditional institutional principles, under the evolving power-relations in the private sector, might have become the only way for the CCP to speak for society as a whole. Incentives for the private entrepreneurs to allow party-building in the enterprises and thus form closer links to the party apparatus comprise the creation of a stable political environment for the enterprise development, easier access to financial resources and the enforcement of political representation. The extensive trust-building measures the party has taken lately, which culminated in the clause added to the state constitution for the protection of private property in March this year, could increase the incentives since the links now seem rather advantageous to the entrepreneurs, i.e. not connected with political interference.

Apart from the functions of party-building in private enterprises on the systemic level, the Chinese debate about the new role of the grassroots organisations stresses their possible mediation position in the enterprises. Although party theoreticians keep close to accredited formulations by suggesting the grassroots organisations should form a "tie" (*niudai*) to staff and workers and a "bridge" (*qiaoliang*) to the entrepreneurs,<sup>33</sup> this could point to quite possible institutional change in the future. In terms of political control vis-à-vis the entrepreneurs, the mediation position is a very weak one. It can only go as far as organising discussion rounds or passing over staff members' opinions and proposals.<sup>34</sup> Towards the staff on the other hand, traditional means of supervision and control could easily be activated, assuming the entrepreneur allowed the interference. In a model district in Hebei province for example, the grassroots organisations in the private enterprises not only became engaged in solving staff-related problems and in guiding negotiations, but also "changed backward workers and employees".<sup>35</sup> Considering the party's urge to avoid a situation of openly conflicting interests in society, this leads to a strong argument for the intensified project of party-building in terms of industrial relations. As can be observed, private entrepreneurs who are party members tend to fill the position of party secretary themselves.<sup>36</sup> Therefore they not only maintain control over the grassroots organisations, but they could also profit by the party's organisational means and thus have a tighter grip of the staff. More research has to be carried out concerning the actual shift of power relations inside the enterprises, but it seems that inside private enterprises, where the traditional ideological background is relatively low, a new corporatist arrangement could evolve in which the grassroots organisations are institutionally linked with the enterprise management. In this respect, the party leadership could even accept further erosion of the traditional ideology to a certain degree. Ideological conflicts would render the determination of new differ-

<sup>32</sup> Pi, "Yu shi ju jin you suo zuo wei", p. 24.

<sup>33</sup> Yin, "Jiaqiang siying qiyé dāng jiānshe gōngzuò", p. 56. Or as another author puts it: "bridge and tie in between government, enterprise and staff and workers". Pi, "Yu shi ju jin you suo zuo wei", p. 24.

<sup>34</sup> Zhang et al, "Dāngjiān gōngzuò xīn lǐngyù de jījí tǎnsuō", pp. 36f.

<sup>35</sup> Ibid.

<sup>36</sup> See for example Susan V. Lawrence, "Both Party Man and Businessman", in: *Far Eastern Economic Review*, 08.03.2001, pp. 14-17.

entiated functions for the grassroots organisations more difficult and thus contribute to their institutional disintegration.<sup>37</sup>

Still, there are at least two critical points about such forecasts of functional changes within the traditional structures of party power in the private sector: First, the question remains as to how private entrepreneurs might weigh expected incentives and the party's trust-building against the binding to the party apparatus, whose political lines towards the private sector have thus far been rather ambiguous. Surely entrepreneurs in China prefer close links to the political sphere. Since the mid-1980s, party membership had already been one of the important ways to create such links. Extensive Chinese inquiries among more than 3,000 private entrepreneurs at the end of 1999 found that 19.8% of private entrepreneurs were party members and another 10.8% still wished to join.<sup>38</sup> However, since Jiang Zemin's speech in July 2001, i.e. since party membership of private entrepreneurs is acknowledged officially, surprisingly few entrepreneurs showed an interest in joining the party. Although the latest comparable inquiries published last year found that until the end of 2002 party membership among private entrepreneurs had risen to 29%, only 16 of the interviewees (0.5%) had joined after the speech.<sup>39</sup> The cited report showed that entrepreneurs are still eager to represent their political interests and to take part in the process of policy formulation, yet with an official party membership they still connect fears of additional restrictions.<sup>40</sup> The high percentage of party members among the entrepreneurs is made up of more than 90% who were already party members, most of which are cadres, before they established their businesses.<sup>41</sup> Thus for the party, not only the question of how the political orientations and interests of the new group of entrepreneurs will develop vis-à-vis the party-state remains crucial. This relates to the old problem of maintaining party discipline, except now it occurs in the face of new emerging powers among entrepreneurial active cadres and party members, pointing at the second problem the party has in saving political power over the private sector: How will the traditional means of inner-party control actually work in light of entrepreneurial power?

<sup>37</sup> For the advantages of such technocratic strategies to minimise political-ideological conflicts in a one-party system with growing interest differentiation see already Huntington, "Social and Institutional Dynamics of One-Party Systems", p. 41. The biggest problem for the party could become a future emancipation of workers' interests in the course of the growing interest differentiation in society and further commitments of the party vis-à-vis the entrepreneurs. Here the development of the role of the workers' unions needs to be watched closely.

<sup>38</sup> "Zhongguo siying qiye yanjiu" ketizu (Project team "Research about Chinese private enterprises"), "2000 nian zhongguo di si ci siying qiye chouxiang diaocha shuju ji fenxi" ("Data and Analysis of the Fourth Chinese Inquiry Among Private Entrepreneurs of the Year 2000), in: *Zhongguo siying jingji nianjian 1997-1999*, p. 363.

<sup>39</sup> Cited from: Zheng Baochu, "Siqi canzheng" ("Political Participation of Private Entrepreneurs"), in: *Shenzhen geti siying qiye zai xian* (2003), [http://www.gs160.net/forum\\_show.php?id=292&page=1](http://www.gs160.net/forum_show.php?id=292&page=1); 22.01.2004.

<sup>40</sup> Ibid.

<sup>41</sup> Ibid. The sudden rise of the number of party members among the entrepreneurs is explained by the high percentage of state-owned or collective enterprises that were privatised or officially registered as private after the speech. Their owners are also mostly former cadres.

### **III Restricted Organisational Means of Party Control? Personnel Management and Informal Networks**

One of the main reasons for the strategy of opening-up the party to private entrepreneurs must be seen in the fact that the informal clientelist ties and networks and the personal fusion of businessmen and local party and government cadres had grown extensively. The official ban on party membership for private entrepreneurs, propagated in August 1989, had failed to prevent the corrupt activities of cadres. It has simply been ignored widely at local levels.<sup>42</sup> It also turned out that the emerged political and economic interdependencies were advantageous for the economic development and the maintenance of the political relevance of party organisations alike.

Now the party leadership has changed its strategy. It has no choice but to try to strengthen the impact of formal party politics on these developments. Like the extensive research undertaken since the mid-1990s on the phenomenon of informal relations<sup>43</sup> has shown, political positions and private business activities have come together in complementary strategies for economic and political advancement as well as social recognition.<sup>44</sup> A cadre position, combined with entrepreneurial activities or close, often kinship relations with entrepreneurs, guarantees not only a significant rise of personal income, but also the maintenance of the position's political relevance.<sup>45</sup> Besides taxes and other revenues, cadres might receive additional material offers, rights of participation in operational decisions or even a position in the ~~company~~ exchange of fixing 9.80-4.9(e)0.7( )TJ-1.9(2810 TD-0.0005 Tc0.1048 Tw[Nr clut]3.8(no)10.

province, it was found that accumulation of more than one office by private entrepreneurs was the case in 16% of the offices. Some entrepreneurs even filled more than ten posts.<sup>47</sup>

In order to prevent the spreading of informal links between private entrepreneurs and local party and government cadres and control the political impact of the entrepreneurs, the party centre has, since 1991, already tried to formally integrate private entrepreneurs into processes of local political decision-making. United Front Departments, together with the organisations of the All-China Federation of Industry and Commerce (ACFIC), select representatives for the Political Consultative Conferences (PCC) and the People's Congresses (PC) at all administrative levels. The entrepreneur's interest in determining the political output through such formal political positions is undiminished. The abovementioned Chinese inquiries showed that in the end of 2002, 83.4% of private entrepreneurs were represented in the organisations of the ACFIC, 35.1% in the PCC, 17.4% in the PC, and 48% in the two associations for self-employed labourers and private enterprises.<sup>48</sup> The selection of these representatives should constitute another channel for direct party control. As already set out for the strategy of building grassroots organisations, here it also remains unclear what the actual means for control could be, except the chance to gather more vital information about the group and a doubtful ideological impact. According to the United Front Department, the party-state's organs formally responsible for the private sector's development, such as trade chambers, tax offices and other economic administrative organs, were bound to their material interests and therefore not suitable to take on the entrepreneur's political-ideological education.<sup>49</sup> The party's accredited means of education however, like campaigns, schoolings or propagating model persons have so far also seemed to lack any educational impact. The United Front Department in 1999 complained about a number of problems, which were mainly connected to the entrepreneurs' strongly dominating vested interests solely concerning their enterprises' development. According to Chinese research, by filling political positions they mainly expect growing reputation for their enterprises, an enhancement of their own social status, support in financial matters and in the realisation of business goals and relevant information. Last but not least they also expect the opportunity to build advantageous contacts to political executives and well-known public figures.<sup>50</sup> Furthermore, in the political processes private entrepreneurs were said to have taken advantage of their material resources and economic position, e.g. to influence the outcome of elections.<sup>51</sup> However, to speed local economic development, especially in the villages, the official propaganda has, since recent

<sup>47</sup> Zhonggong zhongyang tongzhanbu jingjiju ketizu, "Guanyu jiaqiang dui feigongyou zhi jingji renshi zhengzhi yindao wenti", p. 370.

<sup>48</sup> Cited in Zheng, "Siqi canzheng".

<sup>49</sup> See Zhonggong zhongyang tongzhanbu liuju (Sixth office of the Central Committees United Front Department), "Guanyu feigongyouzhi qiyu dangwai zhishi fenzi duiwu qingkuang de diaocha baogao" ("Research Report Regarding the Situation of Non-party Intellectuals in Non-public Enterprises"), in: *Zhongguo siying jingji nianjian 1997-1999*, p. 375.

<sup>50</sup> See Zheng, "Siqi canzheng"; Zhonggong zhongyang tongzhanbu jingjiju ketizu, "Guanyu jiaqiang dui feigongyou zhi jingji renshi zhengzhi yindao wenti", p. 368.

<sup>51</sup> Zhonggong zhongyang tongzhanbu jingjiju ketizu, "Guanyu jiaqiang dui feigongyou zhi jingji renshi zhengzhi yindao wenti", pp. 369f.

years, supported the practice of private entrepreneurs filling leading positions in local party and government organs. Jiang Zemin's speech in July 2001 has finally swept away the remaining critical voices regarding the growing political impact of private entrepreneurs. Since then party organs had to draw a picture of entrepreneurs acting ideological correctly as soon as they come under ideological influence of the party organisation, like having good relations to the workers or caring for the well-being of the community.<sup>52</sup>

In terms of possible institutional change it seems obvious that no matter how the party leadership thinks of for formally integrating private entrepreneurs into the party-state apparatus, as long as there is still a need for informal contacts with local cadres, especially concerning access to financial resources or the creation of a secure political environment, such networks will prevail. Personal interdependencies and the informal institutional links between the party organisation and the private sector might be an important additive to secure the economic modernisation project as long as the functioning of the formal institutions is still insufficient. Though at the same time, the informal networks certainly pose a main threat to the party's unity and control. The question of party power in the private sector therefore doesn't point towards the "education" of the entrepreneurs' political orientations and activities alone. Another crucial aspect concerns the effectiveness of the party's personnel management system as one of the significant organisational means to maintain political control over the entire cadre force. Since the abovementioned State Council document regarding "strengthening talent work" now openly includes entrepreneurs into the core of the party-state's talents force, aside from leading cadres and high-level experts, it can be assumed that the leadership will instead concentrate on the institutionalisation of effective personnel control.

Since the 1990s, the party strongly endeavours to modernise its cadre system. The different forms of institutional innovation to enhance government efficiency or gain popular support in local communities have in one way or the other also strengthened party control over personnel management. In the course of administrative reforms, especially since 1998 when government functions were further restricted to macro-economic regulation and coordination, the party organisation gained greater authority of intervention in personnel policies inside administrative organs, enterprises and service units through its powerful Organisation Department.<sup>53</sup> The control over the evaluation and monitoring of local leaders was strengthened through the cadre responsibility system. 1993 was the first time that national regulations stipulated principal criteria and modalities of selection, evaluation and promotion, as well as incentive and disciplinary proceedings for the civil service. In addition to a broad institutionalisation of democratic selection and evaluation proceedings, like introducing market competition, appraisal meetings or autonomous selection in work units,<sup>54</sup> these reforms first of all serve to provide vital information to higher levels of

<sup>52</sup> Zhonggong dalianshiwei xuanchuanbu diaochazu (Research group of Dalian city's party committee propaganda department), "Yi ge siyingqiezhu de rudang jingli ji qishi" ("Experiences and Revelation From a Private Entrepreneur's Party Entry"), in: *Qiushi* no.7 (2002), pp. 39-42.

<sup>53</sup> Brødsgaard, "Institutional Reform and the *Bianzhi* System", pp. 378, 385.

<sup>54</sup> For the latest reforms see "Zhonggong zhongyang guowuyuan guanyu jin yibu jiaqiang rencai gongzuo de jueding".

the party-state. Edin states that the capacity to control and discipline local agents has improved by means of promoting successful leaders to concurrent positions at higher levels and the rotation of leaders between different administrative and geographic levels. She suggests that the common practice of appointing successful village leaders as well as entrepreneurs to various positions at different administrative levels could be explained by a strategy to incorporate chiefly those groups into the party-state, which are not part of the nomenklatura system.<sup>55</sup> While academic circles and entrepreneurs' organs currently stress the enhancement of private entrepreneurs' political representation,<sup>56</sup> this would, in terms of political power, give an additional explanation for the accumulation of offices in some regions.

#### **IV Towards More Pluralist Institutions of Representation? Diverging Interests and Party Ideology**

My observations on institutional change connected to the opening of the party to private entrepreneurs have hitherto mainly concentrated on the aspect of party power. Although this is clearly decisive for an assessment of institutional change in a one-party system, the possible direction of change is also closely connected to the changing modes of political representation. Even if the party leadership is able to adapt its political control mechanisms to the evolving relations of power and authority in the private sector, the degree of legitimacy of this power remains crucial in terms of possible pressure for institutional change from inside and outside the regime in the future. An analysis of the institutional mechanisms of representation could contribute to the identification of evolving institutions of control and legitimacy from below that could mark a shift towards a more pluralist institutional design. What becomes important in this context is the relationship between the party leadership and the addresses of the institutions of political power, that is, in the case viewed here, the private entrepreneurs. Will the established channels of representation thus correspond sufficiently to the demanded exertion of influence by the entrepreneurs? Hence, the actual political influence of entrepreneurs through the system of interest representation in terms of political legitimacy and control is not the only matter to be surveyed. A second decisive factor concerns what might be called the institution's symbolic representation. The party needs to address and represent the moral concepts and political orientations of the new group of private entrepreneurs and enhance their integration in the political community. However, this demands an adaptation of party ideology to the situation of diverse interests in the modernising Chinese society and thus might change the way the party's orientation capacities are perceived among society in general.

With his ideological concept of the "Three Represents" Jiang Zemin reacted to the danger of political institutions no longer representing an appropriate symbolic system for the shifting and diverging interests in society. After class struggle had been

<sup>55</sup> Edin, "State Capacity and Local Agent Control", p. 46.

<sup>56</sup> See prominently the website from the Shenzhen associations for self-employed labourers and for private enterprises at <http://www.gs160.net/index.php> or the special coverage on private entrepreneurs by "Zhongguo jingji wang" (China Economics Web) at <http://www.ce.cn/zhuanti/caijing/hgjj/syqy/index.jsp>.



trepreneurs at local levels and in the enterprises, with the former helping the entrepreneurs to protect their interests even against bureaucratic intrusions, underwent a formalisation through the enhancement of the political status of the ACFIC and its trade chambers. The increasingly influential role of business associations and trade chambers in the process of policy formulations can be traced back not only to their function of organising entrepreneurs' interests, but also to the leading role that is given to former cadres from high levels of the economic bureaucracy in these organisations.<sup>61</sup> Although the relative autonomy that trade chambers and business associations have gained in some experimental areas, as in Wenzhou is praised for creating a new system of political representation that is adapted to a market economy, it nevertheless seems doubtful whether they could really constitute organs for pluralist political participation from below.

Dickson reports that local party and government officials are generally satisfied that business associations appear as effective instruments for strengthening party leadership over local private enterprises.<sup>62</sup> His surveys show that three-quarters of the questioned officials don't even believe the associations were capable of influencing policy implementation. On the other hand, two-thirds of the questioned private entrepreneurs in his surveys believe their associations could influence policy-making. Since he found that cadres, entrepreneurs with party membership and those in better developed counties were less optimistic, and thus in his opinion possibly more realistic, he assumes that the strategy of co-optation might be effective in this point. Consequently, co-opted entrepreneurs were probably less likely to be agents of change. Still, here he identifies a potential for future conflict.<sup>63</sup> Additionally, while private entrepreneurs generally acknowledge the role the ACFIC plays in representing their interests, the latest abovementioned Chinese inquiries showed that more than 80% of private entrepreneurs still see a need to build their own autonomous business association or federation.<sup>64</sup>

Such findings suggest that it remains difficult to assess to what extent the establishment of institutions of political representation for private entrepreneurs has actually increased the party's legitimacy among this group. Dickson reports that the political orientations of private entrepreneurs with or without party membership and of officials being engaged in private business (*xiaohai*) don't differ substantially. They all seem to support the leadership's policies concerning political and economic reforms and also support a system of participation restricted to elite groups.<sup>65</sup> However, in the course of economic policies becoming more complex, the party centre's future decisions about who will be appointed to political posts and therefore gain the right to participate politically might change this situation. It seems reasonable to find more criteria, such as a differentiation between the offices private entrepreneurs are filling, which in future inquiries could show whether different kinds of interest

<sup>61</sup> Chen Shengyong and Wei Zhongqing, "Minjian shanghui yu siyingqiyezhu jieceng de zhengzhi canyu" ("Political Participation of Non-governmental Trade Chambers and the Stratum of Private Entrepreneurs"), in: *Zhejiang Shehui Kexue*, no. 5 (2003), p. 22.

<sup>62</sup> Dickson, *Red Capitalists in China*, p. 75.

<sup>63</sup> Dickson, *Red Capitalists in China*, pp. 81f.

<sup>64</sup> Cited in Zheng, "Siqi canzheng".

<sup>65</sup> Dickson, *Red Capitalists in China*, pp. 129-134.

groups are emerging.<sup>66</sup> Regarding the surprisingly low interest of a large group of private entrepreneurs in joining the party organisation, such research could also show in what way different groups of private entrepreneurs react to the party's effort to achieve their formal integration in the Leninist party-system.

Admittedly, as long as there is no real opposition to the institutional structures the leadership is creating, the institutional change that could be identified along the modes of power and representation will be a slow one. For the developments outlined above seem to suggest that no qualitative changes have occurred in the relationship between the party and the private sector until now. The party leadership instead seems to succeed in formally keeping up the organisational structures of the Leninist party-state and expanding its United Front policy under the label of a new system of interest representation into the group of private entrepreneurs. However, the pressure for economic development and international competitiveness seems to have introduced a new level of responsiveness of the party centre to local developments and has led to a number of functional changes inside the organisations, which are pointing to institutional change and changes in the party-state's power relations. In this context the changing symbolism of the party's institutions of representation is particularly obvious, but further changes involved include the new role of the party organisations in the enterprises, the expanded functions of political positions for the integration and control of private entrepreneurs and the continuous adaptation of the personnel management system to these developments. Although slow and seemingly without a clearly identifiable direction, the institutional changes are manifold and deserve further research.

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<sup>66</sup> At the end of 2002 for example, 5.7% of private entrepreneurs were organized in democratic parties. Zheng, "Siqi canzheng".