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**中国私营企业主的政治  
态度与政治参与**

**Political Attitudes and Participation  
of Chinese Private Entrepreneurs**

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# Political Attitudes and Participation of Chinese Private Entrepreneurs

## Survey on New Changes in Social Structures of Contemporary China

### ABSTRACT

More than two decades of opening and reform policy have witnessed a rapid economic development and an outstanding enhancement of China's national power. While the policy of reform and opening up accelerated the development of productivity, it also brings dramatic and complex changes in the economic and social structures in China, particularly in the development of the private economy and private entrepreneurs. After 20 years of reform policy the private entrepreneurs have become an outstanding factor for both economic power and political impact. As such impact can be felt in the development of the nation's economic growth and political stability. It is an important issue for the progress of the construction of the socialist harmonious society. We give our attention to this special group's orientation and status quo of their political attitudes and participation and take it our priority in the study of the new changes in the contemporary social structures. The project team has made a profound analysis on the reemergence and development of China's private entrepreneurs, as well as their attitudes and participation in politics and their impact

and roles. As a necessary appendix to the major report, the team has also done a good amount of analysis on the labor-capital conflicts in China's private enterprises and the social attributes of the private entrepreneurs. These appendixes are in the form of two minor reports.

The major report of the project includes four parts.

**Part One** resumes the three phases of China's private entrepreneurs' reemergence and development since the beginning of the reform: that is, the phase of reemergence and restoration of the private entrepreneurs from 1979 to 1991; the phase of rapid development from 1992 to 2000; and the phase of maturity and stability since 2001. Within over 20 years of restoration and development, China's private entrepreneurs are able to convert their economic interests through their influence on the ruling party's decision making.

**Part Two** summarizes the political attitudes of China's private entrepreneurs by means of the data from a survey. In contemporary Chi-

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nese society, on the one hand, the private entrepreneurs take the surplus values by possessing productive means and hiring labors and thus come their special economic status and profits; while on the other, they still self estimate themselves as the middle part of the society despite the fact that their political and social status keeps increasing. As their political status, their social prestige and their economic incomes are concerned, the private entrepreneurs' self-estimation remains medium, without much apparent change. Correspondingly their political attitudes are often quite equivocal and self-contradictive, which differs from members of other strata. They are for example very concerned with politics, but the majority of them show do not participate. They have some desire for Western democracy, but in practice they adopt a pragmatic attitude. They approve a gradual institutional reform, and denounce serious corruption, but don't think that is totally unnecessary and avoidable.

**Part Three** emphatically expounds the primary means and measures the private entrepreneurs take to protect their rights and interests in the political domain. It is elaborated that one possibility for the private entrepreneurs to achieve their political participation is their membership in organizations as All-China Federation of Industry & Commerce, various trades associations, in the people's congress on different levels, as well as in the Chinese Communist Party. The other possibility is to form either a group/collective allies within the institution, or individual allies outside the institution with the local Party leaders and governmental officials. Their alliance can be ex-

tended to link the intellectuals in China such as brain bank members, theorists and media for a better protection of their own economic and political rights and interests.

**Part Four** analyzes the social political impact and the evolitional tendency of China's private entrepreneurs in the future. As it is known, some very influential private entrepreneurs in China have realized their overnight wealth by various illegal conducts, therefore do not enjoy a good public reputation. However quite a few members in our society desire for the private entrepreneurs' economic and social status. Undoubtedly speaking, with their increasing economic power and more participation in the China's social life, the exercise of their influence is not just limited at the grass-root level, but extends to higher levels on the ruling Party and the state's decision makings. Today, after 20 years of reform, China's private entrepreneurs have already become, both economically and politically, an important power on the contemporary Chinese society, whose impact should not be underestimated. It has become a great practical issue for the ruling Chinese Communist Party to interpret and deal with its relationship with the private entrepreneurs and the relationship between them and the other classes and strata. Such relationships are of special significance for the construction of a harmonious socialist society in China.

**Appendix I** describes and analyzes the status quo and development tendency of the labor-capital conflicts and contradictions in China's private enterprises.

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**Appendix II** outlines the different viewpoints of China's theoretical circle on the social attributes of the private entrepreneurs, with an emphasis on the Marxist approach to the issue, including some elaboration on the topic of whether China's private entrepreneurs belong to the so-called "new middle class".

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## **I. China's Private Entrepreneurs Reemergence and Development**

After the founding of the People's Republic of China in 1949, the national bourgeoisie was listed as one of the four basic components in its social structure together with the working class, the peasantry and the petty bourgeoisie. At that time, 860,000 individuals were referred to national bourgeois (After the "cultural revolution," some 700,000 former vendors, peddlers and small handicraftsmen were separated from the original bourgeois industrialists and businessmen after the approval of the CPC Central Committee; thus only 160,000 individuals were confirmed as former capitalists and capitalist agents which formed the national bourgeoisie at that time.) The output value of private industrial enterprises accounted for 63.2% of the national total; and the sales volume of private commercial enterprises accounted for 76% of the national commercial wholesales volume and 85% of the national retails<sup>1</sup>. In the 1950s after the basic completion of the socialist transformation the private enterprises in mainland China were transformed into socialist enterprises under public ownership or semi-socialist enterprises jointly owned by the public and private individuals. Private entrepreneurs (PE) were transformed into laborers living off their own labor. The national bourgeoisie as a class was eliminated. The remaining capitalist residues

were made up of individual industrialists and businessmen. But it was one of the most striking phenomena in China's social and economic structural changes that private enterprises should have reemerged, restored and developed in the historical current of reform and opening up within a short span of twenty-plus years.

### **1. Phase of reemergence and restoration 1979 – 1991**

In 1976 the ten-year "cultural revolution" came to an end. A huge socio-economic reform was brewing at that time in China. The broad masses of people demanded restoration and stabilization of social order, development of production and improvement of their livelihood. The nation asked for changing the excessively rigid economic management system characterized by over-concentration in agricultural and industrial production and appealed for establishing a sound socialist democratic system. This indicated that social demand and motive force were available for developing productive forces through changing the relations of production. Under the concrete historical conditions at that time, the political orientation of the ruling party played a decisive role in changing the relations of production.

In the late 1970s and 1980s the basic line of thinking of the ruling party and government

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1 Institute of Economic Studies/CASS: *China's Socialist Transformation of Capitalist Industry and Commerce*, p.89, People's Publishing House, Beijing 1978.

2 "We are based on planned economy combining market economy, but this is socialist market economy." Quoted from "Socialism can also go in for market economy, November 26, 1979, Selected *Works of Deng Xiaoping* Volume 2, People's Publishing House Beijing 1983."



was to develop production under socialist orientation and with planned economy.<sup>2</sup> Regarding the development of individual economy and the emergence of private economy, the idea was to provide support in developing production while maintaining vigilance over "possible hotbed for breeding new exploiting elements."<sup>3</sup> The idea was to adopt the principle and approach of "keeping a watchful eye," and "crossing the river by feeling for the stones."

In 1979, China was confronted with a huge pressure of educated youths which had been sent to the countryside during the "cultural revolution" and was now returning to the cities while seven to eight million urban residents were hunting for jobs. The government proposed various localities to approve "certain idle labor hands to engage in individual repair, service and handicrafts work while forbidding employing laborers,"<sup>4</sup> The ruling party also added "The urban and rural laborers individual economy that survives at the present time in a very limited scope is a dependent supplement to the socialist public economy."<sup>5</sup> In 1980, the CPC Central Committee proposed to permit individual labor without exploiting others. "Such individual labor was an indispensable supplement to the socialist public economy

and played a positive role in history. We should see to its appropriate development."<sup>6</sup> In September 1982, the CPC held its 12th national congress. The report to the congress pointed out, "It is necessary to encourage appropriate development of laborers individual economy with the scope stipulated by the state and under the industrial and commercial administrative management." In December the same year, the National People's Congress (NPC) revised the Constitution for the first time after the "cultural revolution," stipulating that urban and rural laborers' individual economy is a supplement to the socialist public economy."

With the development of individual economy, there soon appeared the phenomenon of hired labor. The state policy in 1981 was that individual operators were to operate individually or on a household basis. When necessary, with approval from the industrial and commercial departments technicians and handicraftsmen were allowed to take one or two helpers and up to five apprentices.<sup>7</sup> The guidelines of the CPC Central Committee in 1983 were "We are a socialist country that forbids the survival of the exploiting system." "We should not encourage or publicize those who hire more helpers than stipulated above, nor should we be ea-

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3 Page 589, *Resolution on Certain Historical Issues of the Party since the Founding the People's Republic (annotated)*, People's Publishing House 1983.

4 The CPC CC and State Council approved the transfer of the Report of the First National Conference of Industrial and Commercial Administration Chiefs after the "cultural revolution" in February 1979.

5 Comrade Ye Jianying's speech at the rally marking the 30<sup>th</sup> anniversary of the founding of the PRC September 29, 1979.

6 The CPCCC Circular on Transferring the National Labor Employment Conference Documents, August 17, 1980.

7 State Council: Certain Policy Regulations on Urban Non-Agriculture Individual Economy July 7, 1981.

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ger to outlaw them. But instead, we should guide them in the light of the circumstances so that they will take another form of co-operative economic development.<sup>78</sup> But with the rapid growth of urban and rural individual economy, and the promotion of the rural household contract responsibility system, some individual operators and professional operators pooled a considerable amount of money. The surplus labor available both in city and countryside turned many into "free" laborers. The two historical prerequisites became available for the emergence of capital-wage labor relations.

Confronted with the emergence of big employers of wage laborers, the CPC Central Committee admitted for the first time the appearance of private economy in China. In its document "On Deepening the Rural Reform" in 1987, they adopted the policy of "permitting the existence, strengthen management, develop its advantages and restrain its evils and give it gradual guidance." This implied that the ruling party had abandoned its original intention three years before and was orientating towards a cooperative economy, and shifted over to "guiding" the private economy to develop itself. The 13th CPC national congress report in October the same year pointed out, "Private economy is an economic sector in wage labor relationship. But under socialist conditions, it will be naturally linked up with the advantageous public owned economy and placed under its huge impact. Practice shows that a certain degree of private economy de-

velopment is a necessary and beneficial supplement to the public economy as it is conducive to promoting production, enlivening the market, expanding employment and better satisfying the livelihood needs of the people in many aspects." The NPC in 1988 revised the Constitution for the second time after the "cultural revolution" stipulating that "Private economy is a supplement to the socialist public economy. The State protects the legal rights and interests of private economy and carries out guidance, supervision and management in relation to it." In 1988 the State Council promulgated the Provisional Regulation of the PRC on Private Economy, which stipulated that "Private enterprises mentioned in the Regulation refer to profit-making economic organizations whose assets belong to the private individuals and employing more than eight wageworkers." In 1989 private economy was listed into state statistical order. In that year, 90,000 private enterprises and 214,000 investors employed 1.426 million wageworkers.

Since mid-1980s Chinese society has shown an excessive income gap. The huge income gap between worker, cadre and intellectual wage earners on the one hand and private entrepreneurs, some individual laborers and the Chinese employees in foreign-invested enterprises on the other aroused society-wide concerns and strong discontent among the laboring masses. Accordingly, Deng Xiaoping pointed out: "The objective of socialism is to achieve common prosperity of the people across the country, and not polarization.

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8 CPC CC: Circular on Printing and Issuing Certain Issues on Rural Policy January 3, 1983.

Should our policy lead to polarization, we would be defeated. Should there be anything like a new bourgeoisie, then we would be embarking on an evil road.” “In short, public ownership as the bulk and common prosperity are the fundamental principles we have to persist in as a matter of course.”<sup>9</sup> After quelling the political turmoil in the spring and summer of 1989, the CPC Central Committee general secretary Jiang Zemin said at the 40th anniversary of national celebrations: If “hereinafter there should be any attempt to abandon socialism and restore capitalism as advocated by certain people, trying to nurture and fatten a bourgeoisie once again, this could only land the great majority of the people in utter destitution...Socialism, and only socialism can save and develop China.” Countering some private enterprises guilty of tax evasion, the state demanded that they examine into the case themselves and repay the tax evaded. As for those seriously guilty, the top policymakers promised to fine them until they went bankrupt.

At the phase of their reemergence and restoration, most private entrepreneurs came from the lowest echelon of the social ladder. The social mobility rate was very low in pre-reform China, and farmer’s mobility was even lower. But it was precisely the farmers at the bottom rung of the social ladder who found the earliest access into the market after the beginning of reform. In their earliest random

survey of private enterprises in 13 provinces, centrally-directed municipalities and autonomous regions and six specially listed cities in 1991, the State Institution Restructuring Commission and State Administration for Industry and Commerce (SAIC) found that 45.2% of the private entrepreneurs were originally farmers, 6.4% were youths waiting for jobs and other jobless people, 16.8% were small-scale businesses run by individuals, 6.7% were retirees and workers and 3.6% were from other sectors of the society. Another noteworthy phenomenon of the 1991 survey was that 22.5% of the rural private entrepreneurs were previously village cadres, another 10.2% were persons in charge of township enterprises, 7.8% of the urban private entrepreneurs (UPE) were once office cadres in enterprises, and 21.6% of the UPE were technicians. This indicates that those who became entrepreneurs first were people who had social connections in the original institutional system and far more chances than others. From this point of view, this contradicts the position held by foreign academics that market transition would yield an effect of equalization.<sup>10</sup>

During that period, under the impact of the economic and political environment, the private entrepreneurs adopted mainly the following management tactics:

First, Strike acquaintance with local officials to strive for economic conveniences and pref-

9 *Selected Works of Deng Xiaoping*, Vol. 3 People’s Publishing House 1993 p. 110- 111.

10 US Victor Lee: *Theory on Market Transition: State Socialism Guided by a Redistribution Market, The Rise of a Market Society: The Change in China’s Social Stratification Mechanism*, carried in *Market Transition and Social Stratification --- US Sociologist’s Analysis of China*, Sanlian Bookstore Beijing, 2002.

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erences in exchange for political insurance and protection: As buyers of the power market maximizing their interests, private entrepreneurs consistently increased the frequency and cost of their contact with power, which was also the continuous process of power being capitalized. By way of reciprocal relations between capital and power such as taking and offering commissions, giving and taking bribes, they set up a get-rich-quick channel of bilateral money-power transactions in scrambling for raw and other materials and commodity sales markets with state-owned and collective enterprises.

Secondly, Take "lesser, red and foreign labels": By taking "lesser labels" it was meant that private entrepreneurs evaded being regarded as exploiters hiring wage earners by getting an identification of individual laborers via registering their enterprises as individually-run businesses. At that time the political definition differed individually-run businesses from private enterprises in the number of people employed between seven or less and eight or more. By taking "red labels" it was meant that private entrepreneurs subordinated their enterprises to towns and townships, schools and bureaus of civil affairs and registered them as township collective enterprises, school-run factories and enterprises run for the welfare of the handicapped so as to evade being labeled as "private." This would not only be conducive economically in terms of taxation, land use and supply and marketing, but would,

more importantly be politically safer. In the 1990s the SAIC through a survey found out that of 178,000 "collective enterprises" in 16 provinces and municipalities 20.8% of them had more than 51% of their assets owned by private individuals.<sup>11</sup> By taking "foreign labels," it was meant that private entrepreneurs tried to transfer their money overseas and then transferred it back home to run foreign-invested enterprises to gain state preferential policy treatment for foreign investors and greater political safety and conveniences.

## **2. Phase of rapid development 1992 – 2000**

On his southern China inspection tour in the spring 1992, Deng Xiaoping emphasized that "development is an absolute principle," "more of planning or of market is not the essential difference between socialism and capitalism," "planned economy does not equate socialism, for capitalism also involves planning; nor does market economy equate capitalism, for socialism also involves markets," demanding a stop of polemics between different approaches on reform and opening up. In October the same year, the 14th CPC national congress defined for the first time that "the goal of China's economic restructuring is to establish a socialist market economy." "It will be a long-term common development of multiple economic sectors with the public economy including economy owned by the whole people and the collective as the main and the individual, private and foreign-invested economic sectors as

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11 Li Xiutan and Hu Xiugan: *Research Report on China's Private Economy* p.16, Zhejiang People's Publishing House, Hangzhou 2004.

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the supplement." The 15th CPC national congress in September 1997 further defined that "the common development of economic sectors under diversified ownership with the public ownership as the main will be a basic economic system for the primary stage of socialism in China." "Non public economy including individual economy and private economy is an important component of the socialist market economy." The NPC in 1998 revised the Constitution for the third time, upgrading the status of the individual and private and other non-public economies from "supplement" to the socialist public economy to that of an "important component of the basic socialist market system." By then, private economy had obtained a completely equal status with the public economy. From then on there emerged an upsurge of private enterprises brandishing their "red labels" to resume their true features.

By the end of 2000 the number of private enterprises had reached 1.762 million. Private enterprise investors had hit 3.953 million employing a total number of 20.111 million workers (not including those recruited by individual run businesses, foreign-invested and other non public enterprises), 5.65% of the non-farm laborers nationwide.

At the very outset of the reform, the CPC not only emphasized quick development of productive forces, but also stressed the importance of adhering to the socialist relations of production. For example, in the 1981 Resolution on Certain Historical Issues of the Party since the Founding of the PRC, it was pointed out that China had instituted the socialist system. The version annotated by

the Document Research Office of the CPC Central Committee especially emphasized, "It is an absolutely erroneous viewpoint to deny that China has entered socialism on the pretext of its backward productive forces." The 1987 CPC 13th national congress presented the theory of primary stage of socialism, noting that it specified the particular stage of "building socialism under backward productive forces and underdeveloped commodity economy conditions in China," and stressing the necessity to make productive forces development as the focus of all work and consider whether it is conducive to productivity development as the starting point of all questions and the fundamental criterion for examining all our work."

Correspondingly to the definition of China's social and economic system the situation was changing step by step: In 1982 the 12th CPC national congress outlined "the formulation as planned economy as the main market regulation." In 1984, the CPC Central Committee's Decision on Economic Restructuring changed the formulation into "planned commodity economy on the basis of public ownership," changing the planned economy from the subject into a modifier for the first time. The 13th CPC national congress in 1987 maintained the formulation, but presented a further formulation specifying that planning and market cover the whole society in role and scope, and that the new economic operational mechanism should be one "with the state regulating the market and the market guiding the enterprises." The 14th CPC national congress in 1992 clearly pointed out that "The socialist market economic structure we want to estab-

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lish is to enable the market to play the basic role of resource distribution under the macro-control of the socialist state."

Judging from the ownership relations, the 12th CPC national congress in 1982 called public economy the basis of economic system. The 13th CPC national congress in 1987 called public economy the main body, saying that other economic sectors had been "inadequately developed instead of having been developed excessively." The 14th CPC national congress report in 1992 continued to call public economy the "main body," and defined long-term common development of diverse economic sectors at the same time. One year later, the Third Plenum of the 14th CPC Central Committee said "some ordinary small state-owned enterprises can be contracted and rented out for management while others can be reorganized into stock cooperative systems and can also be sold to the collectives or individuals." With this the ruling party had changed its idea to direct the orientation of private economy development to collective economy into the idea not only to permit and encourage non-public economy development, but also to confirm its development by purchasing public-owned enterprises. The 15th CPC national congress in 1997 defined the "main body status of public economy" as "different in certain localities and industries as far as the whole country is concerned."

Similar changes also took place in the distribution system. The formulation before the 12th CPC national congress in 1982 was "implementation of the socialist principle of each according to his work." The Third Plenum of the 12th

CPC Central Committee in 1984 came up with the proposition to permit and encourage some people to "get rich first by their diligent labor." The 13th CPC national congress in 1987 proposed implementation of the diversified distribution mode with each according to their work as the main," permitting "some non-labor income" from "interest at bonds" and through "stock bonus income," "risk compensation" and hiring a certain number of labor hands, and proposed "manifestation of social justice given increased efficiency on the question of justice and efficiency relationship." The 14th CPC national congress in 1992 proposed "consideration of both efficiency and justice with to each according to work and with other distribution modes as a supplement." The 15th CPC national congress in 1997 proposed "combining each according to work with each according to production elements ... permitting and encouraging the participation of production elements including capital and techniques in benefit distribution," changing the formulation of the 14th CPC congress into "priority to efficiency while taking justice into account."

Under such an impression the rapidly growing private economy emerged in striking contrast against a dramatically declining public economy. In the initial period of private economy reemergence many private enterprises were producing backup products for state-owned enterprises (SOE). Supply and marketing were to some extent restrained by the state-owned economy, and PE imitated the SOE in some management methods, rules and regulations. After 1993 the policy in relation to SOE began "grasping the major ones while dropping the smaller ones." After 1997, the

policy “encourage merger, regulate bankruptcy, lay off workers for diversified employment and decrease the staff for increased efficiency” was introduced. Thereupon, large numbers of SOE stopped production, went bankrupt, were sold and merged. Large numbers of workers were dismissed and became jobless. Even those SOE who continued production, enterprise management more and more emulated the private enterprises. Urban and rural enterprises were restructured into private enterprises more rapidly and thoroughly. Jiangsu Province for example is the country’s most developed province in urban collective enterprises. Through stealthy restructuring in the last three years of the 1990s, over 90% of the village collective enterprises were changed into private enterprises or private enterprises with scattered equities. By the early 21st century, the previous restructuring mode of worker stock entry was again considered inadequate to meet the incentive to the operational managers; hence a “secondary restructuring was launched focusing on pooling the stocks into the hands of

the original managers --- to implement “major stocks for the business operators.” Thus the original managers of the collective enterprises became owners of the enterprise while numerous workers and staff who once were common owners became wageworkers or were dismissed. Under the assault of the up surging local officials and enterprise managers emulating the “Wenzhou model,” the southern Jiangsu model no longer survived. The restructuring was administratively compulsive to a considerable extent. If the heads and workers of these enterprises have any suspects or dissatisfactions to these kinds of reform, they will face the administrative measures of “being dismissed or moved out of these enterprises”.

Table 1 shows that in the major industries the number of workers in SOE and collective enterprises dropped to less than half from a decade ago while the number of private enterprises skyrocketed. The number of workers in both the SOE and collective enterprises was less than the total of wageworkers in private enterprises.

*Table 1: Number of workers in manufacturing, architecture, Transport and communications and storage (in millions)*

Year	SOE	UCE	PE
1990	45.93 million	23.62million	6.74million
1995	46.08million	19.82million	17.43million
2000	23.36million	8.36million	25.24million
2002	17.79million	6.03million	27.50million

Source of data: 2003 China Statistics Yearbook, China Statistics Press, p 130, 414, 146, Beijing 2003.

At the same time tax deliveries to the state from enterprises under different ownerships were in total contrast to the employees: From the pre-

vious random survey data of PE from the CPC Central Committee United Front Department and the All-China Federation of Industrialists

and Businessmen (ACFIB), the SOE and PE were quite different in terms of sales volume, tax

delivery volume and profits. Industrial enterprises in 1999 for example (See Table 2).

*Table 2: Comparison between industrial PE and SOE in sales, taxes and profits*

Ownership	Ratio in industrial sales and taxes	Ratio between industrial sales and profits
SOEs_	100_8.57	100_2.77
PEs _	100_4.00	100_5.51

*Source of data: 1. Calculated from Table 13 – 10 in China Statistics Yearbook 2000. 2. Random survey data in 2000.*

If private enterprise sales cost less and yielded more profits then they were to pay higher rates of tax. But practical tax proportions turned out to be lower. After the tax reform in 1994, PE were given the same treatment as the SOE and CE in taxation. Given the same industrial output value or social consumption retails volume, the amount of tax for enterprises of different ownerships was more or less the same, but there was a huge gap between the PE tax due and the practical tax calculated in this manner. Between 1989 -1998 the gap totaled about 300 billion yuan, 40% of the total registered capital of the private enterprises in 1998, or only

12.7% of the tax due for delivery. It was often claimed that private enterprises developed themselves without any state inputs and with very scanty bank loans, but due to the lack of tax levying capacity of the state, and due to the fact some state functionaries were reluctant to levy the tax due from the PE the 'benefits' received was equal to a provided long-term "free launch" to the PE.<sup>12</sup>

To date, the number of SOE workers has dropped below that of non-public enterprises, but they are paying more than the sum total of taxes than their counterparts in non-public enterprises.

*Table 3: Ratio of tax income from different economic sectors (in %)*

Year	SOE	CE	PE	HK, Macao and Taiwan invested enterprises	Foreign - invested enterprises	Individual run business	Tax income from other sectors
1994	64.8	17.3	0.4	3.6	3.5	6.6	3.8
2000	42.6	9.7	3.3	6.2	11.3	4.8	22.1
2001	35.4	8.4	4.4	6.2	12.8	4.2	28.6
2002	31.5	6.7	5.6	6.7	13.8	4.1	31.6

*Quoted from ACFIC: China's Private Economy Development Report 2003, p. 11, Social Sciences Document Press, Beijing 2004.*

12 Dai Jianzhong: "Studies on China's Private Entrepreneurs at the Present Stage," carried in Sociologist Studies Issue No. 5, 2001.



Former Premier Zhu Rongji who had tax evasions by private entrepreneurs observed said in 2001, some of the ten top millionaires appraised in the US Asian Wall Street Daily were CPPCC committee members. He requested the tax department to check whether they had de-

livered personal income tax. The result showed that none of them had done so. The reason was that they had incorporated their personal incomes into the factory. Thus, the corporation belonged to them and the wages available for their use were paid before factory taxation.

*Table 4: Last occupations before private entrepreneurs inaugurated their businesses (in %)*

Pre-inauguration occupation	Prior to 1992	1993 - 1999	after 2001
Technicians	11.3	10.0	6.7
Office officials	6.0	4.0	3.3
Enterprise officials	15.4	35.8	55.4
Workers	21.9	19.1	12.8
Farmers	26.4	13.5	6.0
Individual Businessmen	18.0	17.3	15.2
Military men	1.0	0.3	0.5
Total	100.0	100.0	100.0

*Source of data: Private enterprise random survey by CPC Central Committee United Front Department and ACFIC in 1993, 2000, and 2002.*

With the rising of PE (average registered capital increasing from 93,000 yuan in 1989 to 898,000 in 2001) the PE inauguration threshold was much upgraded. Ordinary workers and farmers could almost not fulfill the dream of an own company. Only minor individual businesses could upgrade to private entrepreneurs with accumulated experience and capital, but found it more difficult than in the initial period of market-oriented development. Equipped with "cultural capital," professional technicians could gain access to government high tech preferential policy. It was easier for them to inaugurate, but it required organization, management and marketing capacity to turn designs into products and sell them. This was also beyond the capacity of bookish scholars. Thus, there were scarcely any flourishing sectors except the IT, electron-

ics telecommunications manufacturing and a few other sectors. Office officials often had long experiences and social networks as social resources to become loans and ratified documents easier, but they had after all quitted their power positions. With their advantage waning, some of them even wanted to return to their official posts. It was only the original state-owned and collective enterprise officials who, distinctively different from all others, had the ample conditions to use enterprise restructuring chances to become new private entrepreneurs. They had the power background and were familiar with commercial battle rules. Half of the private entrepreneurs that inaugurated their businesses around 2000 were people with a SOE official background. This also indicated that the aggravation of SOE and CE restructuring was the very reason ac-

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counting for the rapid increase of private enterprises, with many SOE and CE trying to change into PE through many channels and methods.

### **3. Phase of maturing and stabilization since 2001**

As far as the private entrepreneurs were concerned, by the early 21st century, all law and policy conditions had been made available for their development except one political barrier: The document issued in 1989 by the CPC Central Committee Organization Department specified that "Our Party is the vanguard of the working class. The private entrepreneurs being related to the workers as exploiter and those being exploited, can not be admitted into the Party."<sup>13</sup> The private entrepreneurs were clearly aware that non-admission into the CPC spelt the shortage of a principal channel for political development, or in their words, they were listed in the other register as distinctive from the regular register. So they kept voicing their appeals through the ACFIB, the united front departments and some intellectuals demanding a "red" label as "laborers." The document was not implemented in various localities due to the divergence within the Party. On July 1, 2001 on the 80th anniversary of the CPC Jiang Zemin pointed out that private entrepreneurs were a new stratum that had emerged since the reforms and that they were "builders" of socialism with Chinese characteristics like workers, farmers and intellectuals. The "outstanding

elements" among them could also be admitted into the Party. This speech hallmarked the removing of the political obstacles for the private entrepreneurs.

In March 2004, the NPC adopted a constitutional amendment for the fourth time, which stipulated that "the legal private property of citizens shall be exempt from violation." The Constitution had already specified providing protection for citizen's means of subsistence, stating that "The state protects citizen's legal income, savings deposits, housing and other legal property ownership." This time the revision listed the means of production into the scope of protection, thus, practical placing private capital under Constitution protection. In March 2005 the State Council released Certain Opinions on Encouraging to Support and Guide the Development of Individual, Private and Other Non-public Economic Sectors. The aim was to further settle the difficulties and problems facing the development of non-public economic sectors. These Opinions aimed to make the market access more flexible and permitted private economy and other non-public capital to enter industries. Also the entry into power, telecommunications, railways, civil aviation, petroleum and other monopolistic industries was permitted as well as the access to public utilities, infrastructure, social undertakings, financial service, S&T for national defense access to the mineral resources exploring and mining rights. Vitally connected with the ar-

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13 CPC CC Party Literature Research Office: *Selection of Important Party Literature since the 13th Party Congress* (middle), p. 598, People's Publishing House, Beijing 1991.

teries of the national economy and state security, most of those areas had been run by SOE since the birth of New China. The bottom line in adhering to the socialist economic system since the founding of the PRC, had been the definite stipulation made in the Common Program of the CPPCC in 1949: "The State shall operate in a unified manner all ventures to concern the arteries of the state economy and people's livelihood." Since the introduction of reform and opening there had also been a new bottom line by the 16th CPC national congress that "The state economy controls the arteries of national economy." Permitting non-public economy to enter many areas that control the arteries of the national economy practically marked the beginning of a breakthrough implying greater political significance.

By their development to this date, the PE have become able to achieve, defend and develop their economic interests through affecting the ruling party policy and state laws. A hallmark for its maturity and stabilization!

## II. Private Entrepreneurs' Political Attitudes

In the Chinese society at the present stage, private entrepreneurs secured surplus values through the ownership of production and wage labor; and possess an economic status distinctively different from other social strata. But on the other hand, they had all along held themselves as in the intermediate position in the society despite the consistent upgrading of their political status. The six tracking surveys made by the CPC Central Committee United Front Department and the ACFIB showed that the PE self-evaluation had always remained in the intermediate in terms of political status, social reputation and even economic incomes. There had been no marked changes.

### 1. Basically satisfied with state political activity

PE is a social group caring much for politics (See Table 5), considerate the importance of political environment to running private enterprises in China.

*Table 5: Concerns for state events or social current events*

	Percentage of PE(%)
Constant concern	79.5
Occasional concern	19.5
Little or no concern	1.0
Total	100.0

*Source of data: Survey on China's Private Enterprises: Development and Social Participation sponsored by Professor Chen Jianmin of HK Chinese University in 2002.*

68.6% of the private entrepreneurs are satisfied or fairly satisfied with the state political condition and 44.6% of the private entrepreneurs

consider that most government officials serve the common people quite well. Obviously the PE percentage is much higher than in other

parts of the society, where only 28.3% have a positive impression of government officials.<sup>14</sup>

More than half of private entrepreneurs considered there was improvement in the government work connected with private enterprise

development since the 16th CPC national congress. The percentage of those satisfied was the highest especially in “protecting private property” constitutionally and in vigorously enhancing PE (private entrepreneur) social status in all fields.

*Table 6: PE evaluation of enterprise development environment in the past two years*

Existing problems	Percentage of those feeling some improvement (%)
Implementing law and regulations protecting private property	65.5
Enhancing PE social and political status	60.8
Simplifying government ratification process	56.5
Reducing illicit fee-charging, burden sharing and fund raising	55.6
Making flexible business operation areas and lowering market access thresholds	54.3
Improving enforcement style (civilized law enforcement)	53.6
Better social security and PE safety of the person	53.3
Instituting private enterprise credit system	48.7
Improving financing environment	47.5

*Source of data: 2004 National Random Survey of Private Enterprises by CPC Central Committee United Front Department and ACFIB.*

Ranking first among their desires for further improvement was “economic development and a better life for the people,” while the desire for reducing the rich-poor gap places very

much behind (See Table 7). The rich want to be richer and disprove reducing the rich-poor gap. It is clear that generally speaking, PE basically identify their realistic political life.

*Table 7: Improvements most desired by PE at present*

Problems	Percentage of PE desiring for (%)	Ranking
Economic development and a better life for he people	73.0	1
Reducing rich-poor gap	12.5	8
Healthier and more just legal system	71.0	2
More flexible democracy and free space	18.5	6
Cleaner society by corruption crack down	50.0	3
Higher social morality level	20.0	5
More universal education and higher citizen quality	27.5	4
Better security	9.0	9
Better control of environmental pollution and deterioration	16.5	7
Others	0.5	10

*Source of data: Survey on China’s Private Enterprises: Development and Social Participation sponsored by Professor Chen Jianmin of HK Chinese University in 2002.*

14 Wang Xueqin and others: *Studies on Social Group Awareness of Beijing Private Entrepreneurs* June 2001 - January 2003, carried in *Investigations and Study of Social Economic Problems* Issue No. 3, 2003.

**2. A contradictory mentality in political participation: Mostly lukewarm participation though showing concern for politics**

PE are comparatively satisfied with the political environment, but have maintained a prudent and low profile attitude in political participation. They deliberately keep a "proper" distance. Table 8 data are from a 2004 CPC Central Committee United Front Department and ACFIB random survey, in which the per-

centage of PE striving for Party admission and striving for political arrangements (access into people's congresses and political consultative conferences) are quite close to other surveys (such as the 2002 Survey sponsored by professor Chen Jianmin with HK Chinese University on PE development and Social Participation and the June 2001- January 2003 Study by Wang Xueqin and others on Beijing Municipal PE Social Group Awareness); hence they are credible.

*Table 8: What PE intend to do at present*

Content	Percentage of PE with such intention (%)	Ranking
Concentrated on running enterprise better	95.1	1
Erecting a better personal and enterprise image to become a social elite	89.3	2
Seeking better relations with other social strata	84.3	3
More publicity on media	51.5	4
Seeking frequent contacts with Party and state leaders	48.0	5
Striving to become people's deputies and political consultative conference committee members	46.9	6
Striving to become Party members	27.9	7

Ten years ago the United Front Department of the Shenzhen CPC committee made a meticulous analysis of the phenomenon. They distinguished three types of political demands among the PE.

The active type: this type of PE have certain economic strength, they are young and well educated. They mingle with people easily and utilize every chance to articulate PE interests and claims. Through establishing contacts with party and state leaders they upgrade their social reputation and political identification. They take an active part in welfare and government-organized activities to exhibit their

personal and enterprise image. As people's deputies and political consultative conference committee members they take benefit of political arrangements and hope to upgrade social status through admission into the Party.

The contradictory type: PE of this type bear strong political demands, but behave in great hesitation. They consider the private economy to develop apart from the general state political climate and environment as impossible, but they do not want to tax too much energy on state affairs. They want to get involved in related activities to enhance their own prestige and status, but they are also afraid exposing

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their riches will get them into trouble. They make some contributions to the society, but essentially they dearly cherish every cent. They want to weave a network of connections with all parties concerned, but they are afraid of taxing too much of their time and energy. They think themselves capable of participating in the deliberation and administration of state affairs, but doubt the practical role they can play. They are not bent on political arrangements and always exercise restraint. They are particular about being practical, taking things optionally and selectively. They stop short of elaborating anything. Intellectual-turned PE are mostly of this type.

The indifferent type: PE of this type keep all politics and political activities at arm's length. They do not want to detract their attention since their enterprises are still developing, or though already equipped with considerable economic strength, are not interested in the present social organizational forms or activities.<sup>15</sup>

Today after a decade of development, the CPC policy towards private economy development has become more flexible with PE feeling the "irreversibility" of the situation. With the PE stratum growing even stronger, their voice at the political stage is incomparable to the situation ten years ago. But most PE still prefer to appoint proxies and pin their hopes on them, thinking it is safer to keep politics on distance.

### **3. A contradictory mentality in political democratization: Very practical though in pursuit of it**

Political forces and scholars abroad apply to the PE the experience of the third class during the European bourgeois revolution and the experience of the liberal bourgeoisie during the development of the New American continent. They regard PE as believers of "sovereignty for the people," "everybody born free and equal and the rights to happiness and property", as subverted of the present political regime, the basis of "political democratization," and that "the democratic movement would succeed once that class matures."

Such a judgment has not become factual for today's China even the PE have matured. Most of the PE have held "the development today is inconceivable without the Party's reform and opening policy," "we are indebted to the party's policy to make the people rich." This is one of the basic points in their political attitudes. Their representative figures take part in the deliberation and administration of state affairs at people's congresses and political consultative conferences, but their main aim is still economic. In their concept of political participation, they do confirm and pursue after the concept and ideal of Western democracy, but they would often demonstrate their disapproval whenever it comes to a concrete problem. For example,

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15 United Front Department of CPC Committee of Shenzhen: *Analysis of the Status Quo and Political Needs of Shenzhen Private Economic Representative Figures*, *China's Private Economy Yearbook* 1996, p. 206 ACFIB Press Beijing 1996

they believe that the “common people” can participate in politics at the community level,

but they have almost no impact in decision-making. (See Table 9)

*Table 9: PE's Concept of political participation ( in %)*

Viewpoint	Agree to viewpoint on the left	Neutral or not say anything	Agree to viewpoint on the right side	Viewpoint
1 Everybody has a share of responsibility for national prosperity or destruction	77.5	2.5	20.0	I'm helpless in today's society
2 Ordinary people can affect government decision making	31.0	13.5	55.5	People have no impact at all on government decision making
3 Ordinary people can certainly have channels to contribute to community improvement	65.5	10.0	24.5	Common people have nowhere to complain against the community
4 Government should increase city resident chances of political participation	75.5	12.7	11.7	It should be up to leaders to decide on state affairs at a critical juncture
5 Leaders are public servants and should accept people's supervision and criticism	85.2	9.2	5.6	Leaders are patrons to the people and the people should obey them absolutely
6 Better let a hundred flowers blossom in thought without demanding rigid uniformity	46.9	17.8	35.2	There can be no harmonious social order without a unified norm for judging truth

*2002 Survey sponsored by Professor Chen Jianmin with HK Chinese University on PE Development and Social Participation.*

In terms of democratic spirit, PE adopt an apparently pragmatic attitude. They would duly express democratic appeals as soon as they feel pressure of the ruling party and government, but they would instinctively suppress democratic claims from enterprise workers. In society they oppose the demand of absolute obedience of the people to the

leaders because leaders are patrons, and “patronage” management is in vogue in all private enterprises. The Labor Law in China clearly stipulates that workers in enterprises of all ownerships are entitled to participate in organized trade unions. “No organizations or individuals shall interfere and restrict them.” In the past five or six years, Chinese trade

unions have made private and other non-public enterprises the focus of work, but by the end of 2003 only 567,000 private enterprises had set up trade unions, accounting for only 18.9% of the total number of private enterprises. Obviously they hope to assume the air of patrons while the workers are subjects to be reduced to "absolute obedience." Just as described by Karl Marx, while capital forges onward head high, labor follows behind full of misgivings.

#### **4. Attitudes towards reform: Approving a progressive institutional reform**

PE do not oppose reform policies that bring wealth, power and reputation even if they are dissatisfied with the work style of government departments. They contradict changing a government which supports and protects them. They support progressive reform and oppose radical thoroughgoing reforms. This is evidenced by strong manifestations (See Table 10).

*Table 10: PE basic attitudes towards social transformation*

Basic attitudes	Percentage of PE's approval (%)
Our social problems are so serious that there must be a thoroughgoing reform	15.6
Our society really has some problems and should be gradually improved through reforms	81.4
Our society is basically rational. We should maintain its status quo to exempt from sabotage by radical forces	3.0
Total	100.0

*2002 Survey sponsored by Professor Chen Jianmin with HK Chinese University on PE Development and Social Participation.*

*Table 11: Reliance on whom to settle existing problems (in %)*

	Reliance on government	Reliance on social groups and market mechanism	non-articulation
Better social security and social stability	82.5	17.0	0.0
Reduction of illicit fee-charging, burden sharing and fund-raising	81.5	16.5	2.0
Protection of private property and entrepreneur safety of the person	76.0	21.5	2.5
Breaking down regional blockade and industry monopoly	52.5	43.5	4.0
Encouraging credit and honest management	14.0	84.0	2.0
Upgrading social cultural and moral standards	32.0	65.0	3.0
Forecasting industry development and fund orientation	24.5	72.5	3.0
Pushing political institution restructuring	79.5	19.0	1.5

*2002 Survey sponsored by Professor Chen Jianmin with HK Chinese University on PE Development and Social Participation.*



Table 12: PE solutions to disputes

Usual solution to disputes	Ordinary economic disputes		Disputes with competent authorities	
	Percentage of PE(%)	Ranking	Percentage of PE(%)	Ranking
Tacit forbearance	8.8	5	10.0	3
Private negotiation and settlement	49.3	1	6.2	4
Appealing to local government or authorities higher up for a settlement	14.4	3	21.2	1
Requesting arbitration from arbitration organ or suing to the court	30.5	2	4.1	5
Seeking assistance from ACFIB and private enterprise associations for a settlement	12.3	4	10.1	2
Spontaneously allying for a settlement	2.7	7	2.4	6
Reflecting to newspapers and other mass media	2.9	6	2.3	7

Source of data: 1993, 1995 and 1997 National Random Surveys of Private Enterprises by CPC Central Committee United Front Department and ACFIB.

For solving existing problems, PE pin their hopes on the government (See Table 11) and do not cherish illusions about social groups at the present stage. They seldom rely on "spontaneous alignment for a settlement" or the "media" when disputes between private enterprises and government departments have to settle down (See Table 12). But in recent years, there has been a rising percentage of seeking legal means to settle disputes.

**5. Attitudes towards corruption: Disproving serious corruption but tending to regard corruption as something indispensable**

Corruption, basically power-money deals between officials and businessmen afflicting China's political and social lives for more than two decades has been an increasing problem. By and large, PE together with other social

strata have an identical judgment on the severity of the corruption problem. 47.5% hold the problem as "very serious," and another 44.9% as "fairly serious," only 7.6% as "not so serious" or "not serious." But on the question of how to deal with corruption, PE attitudes are rather ambiguous as distinctively different from other working masses, which show inveterate hatred for corruption or even wish it utter destruction. In a survey we made about one decade ago, the thought-provoking impulse was that PE often said "it is inadvisable to have too serious corruption, but it won't do to dispense with it altogether." Now there is still a big gap in the ratio of PE's selecting "agree" "disagree" and "hard to say." Though they play one of the two main roles in taking and offering bribes, PE think that the party with power should bear greater responsibility in the power and money transactions. (See Table 13)

Table 13: PE's attitudes towards corruption (in %)

	Disagree	Hard to say	Agree	Total
Corruption exists in any historical period and in any country	7.2	5.6	87.2	100.0
Corruption is a lubricant for economic development	55.8	25.3	18.9	100.0
Corruption must not be too serious, but it is inadvisable	40.1	24.0	35.9	100.0
The party with power should bear greater responsibility for power-money transactions	10.8	20.6	68.6	100.0

2002 Survey sponsored by Professor Chen Jianmin with HK Chinese University on PE Development and Social Participation.

Concerning the elimination of corruption, PE count first on legal institutional construction (68.3%), second on political structural reform (13.1%), third on economic restructuring (5.5%), media supervision (4.5%), moral construction (3.5%) and boycott by the people (2.5%). Obviously PE rely on legal institutional construction to eliminate corruption and hold "boycott by the people" beneath contempt. Since the law stands for a reflection of the actual economic basis, the process of legislation will be inevitably affected by the actual balance of class forces.

### III. Private Entrepreneurs' Political Participation

Politics is the concentrated manifestation of economy. The accumulated economic interests of a class or a stratum will inevitably rise to political demands, and an economic interest group will inevitably articulate, strive for and defend its rights and interests in the political field. This is also the case with PE.

#### 1. PE organizational participation

(1) Participation in industrialists' and commercial associations, private enterprise associations and industry organizations:

In 1953 the All-China Federation of Industrialists

and Businessmen (ACFIB) was established to replace the former chamber of commerce. It became a bridge for the CPC to unite, utilize and reform the former industrialists and businessmen. The ACFIB was suspended during the "cultural revolution" and was restored in 1983. Since 1991, it has been positioned as a "CPC-led united front people's organization and civil chamber of commerce." Mainly it is concerned to ideological and political work among the representative figures in the non-public economy. At the present less than 10% of China's PE joint the ACFIB. In a 2004 Survey conducted by the CPC CC United Front Department and the ACFIB, 77% of the PE hoped that the ACFIB would "better display the chamber of commerce role and strengthen service to the enterprises." The ACFIB made great efforts to work for the interests of non-public economy figures within its own scope of functions. For example, it made a request to the CPPCC National Committee meetings in 1998, 2002 and 2003 demanding the inclusion of protection of private property in the Constitution and eventually prompted the amendment to the Constitution in 2004.

The Private Enterprise Association (PEA) was first set up in the 1990s as a social group composed of private enterprises under the guidance of the authority of industry and commerce.

A national organ was planned but not implemented. A private enterprise registered is automatically associated to the association. In regions without such association, the registered private enterprise joins the individual labor association (ILA). In some places for example in Beijing, the PEA and the ILA are merged. The task of PEA is to unite, educate and guide its members and serve them; to reflect their opinions to the government and parties concerned and defend their legal rights and interests; assist the government in supervising and administering the PE. Obviously, the PEA's functions are the extension of government administrative management.

Organized by the ACFIB and SAIC, localities have set up tens of thousands of commercial chambers, trade guilds and industry associations. By June 2004, 4916 industrial and

commercial federations had been set up. These commercial chambers and associations generally gained government support. Some local governments bestowed them administrative management functions (such industry associations are usually derived from the government administrative departments). In areas where market economy is well developed, for example in Wenzhou and Guangzhou, such associations are directly led by private entrepreneurs. Some play the role in coordinating the production of private enterprises in the same sector and regulating market behavior.

Survey shows that the PE are desirous of setting up an autonomous industry association or a PEA. 85% of the PE consider such an autonomous organization as "important" or "very important." Table 14 indicates the main roles these organizations are expected to play.

*Table 14: PE's anticipated roles for autonomous organizations*

Content	Percentage of PE with such anticipations (%)
Protection of private property rights	53.3
Enhancing PE social status	56.2
Coordinating business activities	70.4
Formulating trade pact for self restraint	44.4
Liaison for friendly feelings	33.1
Reflecting opinions and demands to the Party and government	41.4

*2002 Survey sponsored by Professor Chen Jianmin with HK Chinese University on PE Development and Social Participation.*

A Beijing survey also indicates that PE are keener than other social members on social group participation. 26.6% said they were willing to join a spontaneous social organization

while the percentage for other social members was only 7.9%. 64.4% of the PE said it was necessary to set up a PE friendship association.<sup>16</sup>

16 Wang Xueqin and others: *Studies on Social Group Awareness of Beijing Private Entrepreneurs* June 2001 - January 2003, carried in *Investigations and Study of Social Economic Problems* Issue No. 3, 2003.

(2) Acting as people's deputies and political consultative conference committee members: The most important and most standardized form of PE's political participation is acting as people's deputies and political consultative conference committee members at all levels. Statistics in 2000 showed that more than 5,400 PE were elected to people's deputies at county levels and above, including 48 at the national and 372 at provincial levels. More than 8,500 were recommended to political consultative conference committees at the county levels and above, including 46 at the national and 895 at the provincial levels.<sup>17</sup> The 2002 Beijing survey also showed that PE regard becoming a people's deputies and political consultative conference committee members as an effective method to upgrade their own social status. 4.8% PE have already become people's deputies at various levels while another 48.1% desired to become people's deputies. 8.2% of the PE have become political consultative conference committee members at various levels, while another 45.9% desired to become political consultative conference committee members.<sup>18</sup> In the new NPC people's deputy list and CPPCC committee member list of 2003, the non-public economy representatives had a higher proportion than in the previous lists. Of these, there were at least 65 CPPCC national committee members, accounting for some 2.9% of the total. With Lifan Industrial

Group board chairman Yin Mingshan elected into the Chongqing municipal political consultative conference committee, and with Chuanhua Group board chairman Xu Guanju elected as vice-chairman of the Zhejiang provincial political consultative conference committee member as prominent examples, PE has found their way into the provincial leading group.

The Investigation Bureau of the CPMCC United Front Department survey showed that 76.5% of non-public economy representatives showed strong political needs and strong desire for political participation. Their mentalities were mainly: Political participation could (1) raise their political status, help remunerate the society and manifest their own values (2) help raise enterprise reputation and commercial credit; (3) help protect own interests in complicated social environment; (4) offer chances to meet leaders higher up and well-known figures and set up necessary social connections; (5) help enterprises to get support in funding, projects and information.<sup>19</sup> Some PE representatives were not satisfied with the present political arrangements and demand more substantive political power.

(3) Joining the Communist Party of China (CPC):

Although the CPC did not permit PE to join the Party during 1989 – 2001, the actual pro-

17 Dai Jianzhong: *Report on China's PE Stratum in the New Period, Report on China's Classes and Strata in the New Period*, p. 280 - 282, Liaoning People's Publishing House, Shenyang 1995.

18 Wang Xueqin and others: *Studies on Social Group Awareness of Beijing Private Entrepreneurs* June 2001 - January 2003, carried in *Investigations and Study of Social Economic Problems* Issue No. 3, 2003.

19 Research Group of Economic Bureau under the CPC CC: *Research Report on the Political Guidance to Non-Public Economy Personages*, carried in *China's Private Economy Yearbook* 2000 p. 368, Huawen Press Beijing 2000.

portion of PE's Party membership was on the rise. A survey of the CPC CC United Front Department and ACFIB showed that 13.1% of the CPC members have been PE in 1993, 17.1% in 1995, 16.6% in 1997, 19.8% in 2000, 29.95% in 2002, and 33.9% in 2004. The reason was mainly that the ruling party and government cadres and persons in charge of SOE and CE who were originally Party members joined the PE ranks. With the acceleration of the SOE and CE restructuring an increasing number of party member factory directors become PE. That was the main reason for the rapid increase of the proportion of CPC members among the PE in recent years.

Relevant surveys<sup>20</sup> show that after the release of Jiang Zemin's speech regarding PE accessibility into the Party, 26% non-Party member entrepreneurs wanted to join the Party. Half of them had the ideal: "To struggle for communism" (14.0%), "believing the CPC was the only leading force to change the Chinese society" (18.1%), "hoping that they themselves would become part of the anti-corruption healthy force within the Party" (14.4%). The other half were utilitarian-minded: "helpful in

business development (38.7%), "politically better guaranteed" (6.5%), "upgraded in social status" (8.3%). (Note22) The practical condition since 2001 showed that few PE were really willing to join the Party organization and accept Party spirit and Party discipline restraint.<sup>21</sup>

## **2. PE alliance with political and cultural elites**

### (1) PE alliance with political elites

Firstly, mass alliances within the institutional establishments:

This refers to the open cooperation established between PE and local and departmental officials with certain legality out of respective interest considerations.

In the 1980s when the individual and private economy debuted, there prevailed a common saying that the intermediate was cold while the two extremes were hot, implying that the central authorities and some of the masses were enthusiastic and active about developing the non-public economy while the local and departmental party and government officials were full of misgivings, regarding the

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20 On October 18 - 19, 2001, a CASS research group called three forums in Beijing attended by private entrepreneurs. Most of the speakers were large and influential private entrepreneurs in Beijing. They argued that "The question of PE joining the Party should be furthered to clarify which of the groups, the unemployed or the PE, are the advanced productive forces, what the ruling party prefers: proletarian or enterprising," "what the essence of a political party is, the ruling class should not be the political party of a class, talking of classes will involve on whom to rely" "to be frank, for some years in the past, the image of the Party has not been as good as it was before," "apart from giving Party membership fees, reading Party literature, Party activities are no longer attractive. Judging from Party members around, we can't perceive their sense of honor, self-pride and responsibility. It makes no difference to join or not to join the Party," "it is more honorable to become a PPCC committee member or people's deputy than to become a Party member because your voice will be heeded when deliberating and administering state affairs.

21 Source of data: 2002 Survey sponsored by Professor Chen Jianmin with HK Chinese University on China's Private Enterprise Development and Social Participation.

individual and private entrepreneurs as an “alien force” threatening their own power. By the 1990s, the local and departmental officials had a tremendous change in their attitude. This was due to the fact that developing private economy was regarded as a hallmark of non-vacillation in reform and opening up on the one hand and also due to the role and effects of the taxation reform in 1994 on the other hand. After the taxation reform there was implemented a system of separate taxation for the central and local authorities. The central SOE income tax was incorporated into state tax and the private enterprise income tax into the local tax. The proper or bad management of private enter-

prises was related to the local tax revenues and the local financial incomes. Apart from taxes, private enterprises had to deliver all sorts of fees to the related administrative departments, which became a small treasury for the administrative departments because the fees were exempted from delivery to the national treasury. Besides, there were all types of burden sharing and fund-raising projects. Judging from the 2004 survey data, the private enterprise fee charges, burden-sharing and donations, public relations reception expenses amounted to about 24.2%, 10.7% and 7.8% of enterprise profits respectively, and about 5.3%, 2.3% and 1.7% of production re-inputs respectively.

*Table 15: PE donation amount and donation purpose (in %)*

Percentage of PE that had donated after inauguration		92.2
Purpose	More contribution to society	92.7
	Expression of thanks to government	54.4
	Remuneration to the country folks	56.5
	For better relations with the localities	32.6
	Enhancing own enterprise reputation	45.7
	Virtually burden sharing	7.6
Average donation amount (in 10,000 yuan)		19.7

*Source of data: A nationwide private enterprise random survey by CPC Central Committee United Front Department and ACFIB in 2000.*

PE greatly resented the (three illicit) illicit fee-charging, burden sharing and fund-raising. Surveys in the past decade and more showed this was one of the few things they most resented. But they were also aware that this was the “price” they had to pay in order to have good relations with the governmental departments. In the 1990s government or township-attached enterprises allowed private enterprises to be “affiliated” to them providing the private enterprises a “red label.” Some

local governments not only provided solutions to private enterprise loan, energy, land use and selling problems, but also provided protection for PE in case of labor-capital disputes and safe production problems. Some local governments even incorporated the PE with economic accomplishments into the political system by offering them political honor and positions. In Qinghe County, Hebei Province, a PE that delivered one million yuan in tax for three years finally could acquire the position

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of a deputy section chief. There are now at least ten PE working at leading posts in the county's court and labor bureau. On the other hand, Jiangyuan County of Jilin Province in 1993 introduced a policy to directly recruit as a deputy section chief public servant any PE who managed to submit an annual profit plus tax of 500,000 yuan or reverse the loss of an identical sum. In the recent decade 25 farmer-turned PE were promoted to deputy town chiefs. According to *Outlook Newsweek*, most of the PE exceptionally promoted as public servants in the two counties did not abandon the original enterprise operational rights or still took up concurrent posts in the enterprises, that is, taking both the labels of "official" and "businessman" at the same time.<sup>22</sup>

In 2003 Chinese theoreticians and mass media generated a PE original-sin proposition which actually originated from the mouth of a real estate developer, implying that the "first barrel of gold" of many PE was "unclean." In connection with the exposed law violations by some famous PE (such as Zhou Zhengyi, Yang Rong and Yang Bin) or their injuries (such as Li Haicang), people said that most of the millionaires did not create their own wealth, but rather turned public property into their own. Some PE felt heat of the pressure. Addressing the PE misgivings, by the end of 2003, the political and law commission of the Hebei provincial Party committee formulated a Decision on Political and Law Organs Creating a Good Environment to Improve the Socialist Market

Economy Structure. Two days later, the Hebei provincial Party committee approved and transferred the document, in which Article 7 stipulated, "No criminal procedures shall be launched against crimes committed in the initial period of private enterprise creation if they exceed limitation of prosecution; comprehensive consideration shall be given to the nature of the crime, plots, consequences and repentance and the present operation status and development trend of the enterprise if the crimes are committed within the limitation of prosecution, and that the cases shall be dealt with lightly, exempted from criminal punishment or punished with reprieve according to law." This was a typical case of open judicial interference in the name of a local Party committee to protect PE interests, triggering public opinion controversy.

Secondly, personal alliance outside the institutional establishments:

This refers to illegal power-money deals between PE and officials whereby both sides made use of and played up to each other on a mutually initiative basis.

In China, successful PE weaved a social connections net carefully. Cadres of the Party and government organs and departments [referred to "two granddads and eight dads"<sup>23</sup>] as well as the persons in charge of SOE were all central figures of the net. They set up extensive, close private relationship with government officials and well-known figures to upgrade

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22. *Officials awarded for tax delivery: two-county controversy on boss-public servants*, Xinhua net February 13, 2004 quoted from *Outlook Newsweek*.

23. "Two granddads" refers to bureaus of industry and commerce and taxation.

their personal prestige and pursue a political effect. In their office some PE display photos, group pictures and inscriptions showing all "big shots" inspecting their enterprises. They highly treasured and relished in such honor. To achieve the purpose of making friends they were willing to tax great energy, time and even money."<sup>24</sup> According to some PE only by dialogue with the Party and government chief problems can be solved. The Survey showed that 41.1% of the PE had universal and close relations with government officials at all levels. In order to upgrade their own political status,

more than 1/4 of PE concern about friendship with "leaders at all levels."<sup>25</sup> Table 16 reveals that kinship connections are more or less restricted by innate clan relations affording small room for choice while friendship connections are completely the outcome of own choice. Compared with kinship connections, there were much more cadres than workers and farmers, which clearly indicates the utilitarian nature of PE communications with other members of society. The level of power resource owned by net members also decided the level of impact accessible to the PE.

Table 16: PE social connections net (in %)

	Year of survey	Technicians	Office cadres	Enterprise cadres	Workers and attendants	Farmers	Individual businessmen	Others
relatives	1993	12.3	21.3	16.3	18.4	15.1	11.5	4.8
	1995	11.9	21.7	15.1	15.9	17.2	12.3	6.0
	1997	8.0	19.9	17.8	12.5	20.9	14.8	7.0
friends	1993	16.9	24.2	17.8	17.8	9.5	15.5	4.3
	1995	15.2	25.3	20.0	13.3	7.6	17.4	4.2
	1997	11.6	26.9	20.1	8.3	4.8	23.3	4.6

Source of data: Nationwide private enterprise random surveys by CPC Central Committee United Front Department and ACFIB in 1993, 1995 and 1997.

In China, some "Party and government leading organ cadres, public enterprise managers and people in charge of human, financial and material resources wanted to become 'both officials and capitalists' by supporting their agents in making money in business through instrumentality of their power," or

"set up inseparable interest links with the capitalists in society (such as PE) by abusing power for personal gains, abusing their functions to solicit and take bribes in trading power for money." "Some had already set up new businesses, others were still abusing their functions in public enterprises to feather

24 United Front Department of CPC Committee of Shenzhen: *Analysis of the Status Quo and Political Needs of Shenzhen Private Economic Representative Figures*, China's Private Economy Yearbook 1996, p. 206 ACFIB Press Beijing 1996.

25 Wang Xueqin and others: Studies on Social Group Awareness of Beijing Private Entrepreneurs June 2001 - January 2003, carried in Investigations and Study of Social Economic Problems Issue No. 3, 2003.



their own nests, and working hard to prepare for and lay a 'basis' for the next step to totally surrender public interests for private ends and set up new businesses.<sup>26</sup> Such phenomenon haunted the USSR on the eve of its dissolution and the Eastern European countries prior to their dramatic changes. Some Chinese scholars summarized it as "theory of power rotation," contending that in the course of "institutional transition," enterprise managers and government officials in important positions can turn state property under their management into their own property through informal channels by abusing their advantageous positions in the ambiguous and chaotic situations during the transitional period. In the course of privatization they had much more chances than other social strata to make great fortunes by abusing social resources in their grips.<sup>27</sup>

Such phenomenon is no longer a matter of isolated cases or fortuity. Collusions between PE and officials are very salient in the China of today. According to the data released by the Discipline Inspection Commission of the CPC Central Committee, from 1998 to 2003 there were 109 cases of provincial officials discipline and law violations directly dealt with by the commission and the Ministry of Supervision, of which 74 were economic cases, accounting for 67.9%. Of the economic cases of discipline and law violations, 36 involved private enterprises, accounting for 48.

25%. Of the 27 cases submitted to judicial organs for criminal investigations, 23 involved private enterprises, accounting for 82.5%. The situation was more or less the same with officials at other levels in discipline and law violations especially in economic ones. For example, the case of former vice-governor of Jiangxi Province Hu Changqing who was sentenced to death, Zhou Xuehua, president of Jiangxi Aote Group, set up extraordinary relations with Hu and captivated construction projects and credit loans from him by providing him with prostitutes and extravagant expenses. Or Wang Huaizhong, former vice-governor of Anhui Province who was sentenced to death, in the short span of half a year after October 1998, he took 1.1 million yuan in four bribes from Ma, board chairman of a Fushun industrial company limited. For the bribe Wang for example called a so-called coordination meeting at the banquet table and brought it under implementation without any delay. He indulged in meeting the wishes of developers and directly meddled in 79 cases of land sale, causing one billion yuan loss of state-owned land. Quite a number of real estate developers became millionaires within a short period of time. In their bribery of officials the PE often reaped a profit several times or scores of times as the bribes handed out. For example, former deputy governor of Zhejiang Province Wang Zhonglu was bribed 490,000 yuan, while the PE reaped a profit of 12.87 million yuan the ratio being 1: 26.

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26 Yicheng: *Certain Data on Private Economy Problems*, carried in *Contemporary Ideological Trends* Issue No. 2, 1996

27 US Akos Rona-Tas: *Are Former Strong Men Still Surfers Today?* Carried in *Foreign Sociological Studies* Issue 5, 1994.

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Former secretary of Guizhou provincial Party committee Liu Fangren was bribed 280,000 yuan, and the PE reaped a profit of 80 million yuan the ratio being 1: 286.<sup>28</sup>

The recent spate of mine disasters in China exposed clearly typical cases of collusions between PE and officials. The PE-official collusions were no only a matter of corruption, but a case where many officials directly investing stocks and taking bonuses from coalmines openly or underground. Officials worked hand in glove with mine owners by offering protection for the mine owners. The private mine owners weaved an interest net with the real power-wielding officials. "Especially under the incentive of heated coalmine market, the net would scale up both in size and strength."<sup>29</sup> An Inner Mongolian coalmine boss said, officials could amass great fortunes this way "even quicker than ransacking a bank."<sup>30</sup> Why should there be a flurry of reports on mine disasters in both northern and southern Chinese provinces? Why could severe accidents with casualties be withheld from both the leadership and the masses? Why did PE become so haughty and reckless in their action? Because they claimed nobody could run any mines without "mediation capabilities." They could not get things done without mediating with local Party and government leaders as well as persons with a clout in land, coal, coal monitoring, industrial and commercial and taxation departments. Almost not a single case of all major coalmine disasters exposed was with-

out the mediation of money and power: "Behind the scenes of almost all death tolls there loomed the shadow of officials who committed violations of disciplines and laws."

(2) PE alliances with the cultural elites  
Due to the new changes in social sources, the PE enhanced their general educational level remarkably. But taken as a whole their cultural resources were still scanty. Hence they paid great attention to absorbing cultural elites into their service. The main forms included were: Some PE promoted "cultural elites" for the post of independent board member of listed companies. Other invited experts and scholars as their advisors. They even created some magazines to concentrate on publicizing PE, or paid for some private economy columns in famous newspapers and magazines whereby they published articles publicizing the merits and credits of private enterprises and PE to make a momentum for them.

At first some major newspapers declared they would never make any "news coverage with remuneration" but later they succumbed to the "assault of money bags." Some news and magazines provided space for viewpoints in favor of PE interests and magazine sponsors kept commenting on viewpoints favorable or unfavorable to private economy development to defend the fundamental interests of the PE.

In today's China some well-known scholars became spokesmen for the PE at the policy

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28 Huang Rutong: *Comment on an Economist Speaking in Favor of the Rich*, Mao flag net July 29, 2004.  
29 *Workers Daily* September 24, 2005.

30 *Workers Daily* September 23, 2005.

level. Calling high profile and large symposiums with high media attendance, these scholars were dedicated to voicing the PE policy environment needs and anticipations, and uttered what PE found it inconvenient or difficult to utter to exert influence and pressure on the ruling party and government decision makers. In recent years, Chinese liberal "cultural elites" dished up many theoretical arguments for private economy and private entrepreneur development:

First, the theory of "bathing in universal sunlight": In the 1980s and early 1990s when public economy was still predominant, some "theoreticians" quoted from Karl Marx that all forms of society have a wielding mode of production holding other relations and their influence under sway to prove that private economy had ceased all exploitation bathed in "universal sunlight" of public economy. Secondly, the theory of "private equating public": When a private individual accumulates more wealth than he can consume, it is social wealth, isn't it?" "Private + private + private = public," "the private system when developed to the extreme will become public." Thirdly, the theory of "privatization being rational": Formerly, socialist public ownership meant "iron rice bowl" and created "lazy bones," "Production can develop only when we achieve privatization which motivates every one to become a boss. Fourthly, the theory of "personal capacity": Free competition under market economy means those who are capable

should become rich. Your poor guys must not grumble. Why are you so incompetent? Instead of being regarded as a consequence of private economic system, personal disadvantage in livelihood was often summarized as personal incompetence. Fifthly, the theory of capital-labor conformity in interests": When a private enterprise develops, the cake will be bigger; everyone will take a bigger share; so we must all be "kind to the entrepreneur."

In the two decades and more of reform and opening, these theories all radically aim to find out all rationales to cover up the essential substance of capital-labor relations. Confronted with this phenomenon, some people exclaimed: "The 'organizational extent' of the capitalists and the diversity of their thinkers, theoreticians and mass media in China today has far exceeded the national bourgeoisie in the early days after the founding of the People's Republic."<sup>31</sup>

## **IV Privates Entrepreneurs' Social and Political Impact and Future Development Trend**

### **1. PE's realistic social evaluation**

(1) The channels of huge PE to become millionaires overnight

Since the 1990s there has appeared an increasingly obvious split among the PE. When seeing the debut of wealthy men with 100 million yuan in Hainan, in the mid-1990s the then CPC Central Committee leader repeat-

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31 Lin Yanzhi: *The Communist Party Must Lead and Control the New Bourgeoisie*, carried in *In Pursuit of Truth* Issue No. 5, 2001

edly asked them how they managed to boom so quickly. Ten years have passed and the wealth of rich people has jumped to a new numerical dimension. There have appeared billionaires, and even multibillionaires.<sup>32</sup> If we can divide the size of investment into different grades, then we can divide the PE group into four grades (or "subgroups"): First, the subgroup of smaller ones whose enterprise investment is below one million yuan, accounting for about 70% of the total; second, the subgroup of intermediate ones whose investment ranges from one million to ten million yuan, accounting for about 30%; the third subgroup of large PE whose investment ranges from 10 million to 100 million yuan,

accounting for about 1%; and fourth, the subgroup of extraordinary large PE whose investment tops 100 million yuan, accounting for about 1/1000 of the total, numbering about 3,000 across the country.

Data in Table 17 showed that the average asset gap between an extraordinary PE and a smaller PE was 653 times and the gap between a large PE and a smaller PE was more than 60 times. The gap between the sizable and lesser assets within the PE group was deep enough, not to speak of their rich-poor gap with other members of society. (The average asset of individual business owner was merely 17, 790yuan nationwide in the same year.)

*Table 17: Average amount of investment of PE  
With different sizes of investment (in 10,000 yuan)*

Total investment by 2003 year end	PE investment (not including loans)
below 1 million yuan	48.17
1 to 10 million yuan	424.16
10 – 100 million yuan	3077.72
Above 100 million yuan	31460.93

*Source of data: Nationwide private enterprise random survey by CPC Central Committee United Front Department and ACFIB in 2004.*

It took the large PE only 10 to 20 years to traverse the road that took the European and US entrepreneur over one century and several generations of hard fight to achieve. What was the secret all about?

First, listing for money: In the 2002 Forbes 100 top rich list, there were 46 listed companies. What does listing mean to the value added of an enterprise? Just take an example: the net assets of Wang Wenjing's

32 According to 2003 and 2004 *Forbes China Millionaire list* disclosures, the richest man in the Chinese mainland in both 2002 and 2003 was Rong Zhijian (US\$ 850 million (less than 10 billion yuan) and US\$1.49 billion (more than 10 billion yuan) respectively. 2003 and 2004 *Hu Run China Top Rich Lists*, the richest men were Ding Lei in IT industry (7.6 billion yuan) and Huang Guangyu in retails (10.5 billion yuan) respectively (Forbes Chinese Mainland Top Rich Release, Xinhua Net, November 4, 2004). The fact that the top rich in both lists in 2004 all had passed 10 billion yuan, quite a big increase from 2003 shed a sidelight on the rapid development of China's private economy.

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Yongyou Software were 83.84 million yuan at the end of 2000 before listing. It was listed in 2001. There were 75 million founder legal person's stocks (totaling 75 million yuan at 1 yuan each), 25 million circulating stocks, circulating at a total market value of 909.50 million yuan at 36.38 yuan each circulating stock. Therefore on the 2002 Forbes list, Wang Wenjing was ranked 60th with a market value of 840 million yuan. There was another even more brilliant scene: at the end of 2001, Yongyou Software distributed bonus in cash at a high ratio of six yuan to 10 stocks (including tax), totaling 60 million yuan. While the circulating stock remuneration rate was 1.6%, the founder's stock remuneration rate was 54%. Holding indirectly 55.20 million legal person's stocks, Wang recovered 33.12 million yuan in the first year after listing.

The earliest birds in the stock market could get rich by buying subscription certificates and original issue stocks. They could get rich by purchasing some companies soon to be listed and getting some listing targets and package listing. They could also get rich by manipulating stock price through internal information from the listed companies. Of the two decades of stock market, some experts said, the state snatched 180 billion yuan, the enterprises another 1,000 billion yuan, the stock sellers another 300 billion yuan, and the average stockholders lost 13,000 yuan per capita.

Second, gain access into real estate and other profiteering sectors. Since 1992 there have been rounds and rounds of "land development

heat" and "real estate heat." Localities have been acquisitioning land under the slogan of urbanization, industrialization and modernization. According to the estimate of the State Council Development Research Center, in the course of rural land acquisition, farmers were at least underpaid for at least 200 billion yuan, and the huge gap went into the hands of the local governments, the real estate developers and the brokerage organs. Urban land was concentrated in the hands of the governments. Large amounts of money-power deals were hidden behind the irregular, non-transparent and closed land lease ratification process. Where did such huge assets gone? How many millionaires would these assets generate? On the 2003 Forbes 100 top rich Chinese list, 47 were investors in real estates and eight were engaged in infrastructure construction.

In a news release, the Ministry of Land and Resources disclosed that the real estate sector reaped staggering profits, by far higher than the average profit level of other sectors. For example, the Beijing real estate development profit accounted for 17.1% of the housing price, hitting 20.4% at the highest between the second and third ring street of the city. The profit for housing development in most cities across the country was more than 10%. The intermediate and high profile real estate average profit rate was even higher and usually hit 30 – 40%. Such colossal profits seduced many sectors into the real estate development, intensifying the land competition and leading to a speculation trend.<sup>33</sup>

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33 People's net, May 16, 2005.

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Recently, Fuzhou municipal pricing department fulfilled an estimate of commodity housing social average cost. The average development was about 2,160 yuan / sq. m, and the social average profit was about 1,400 yuan /sq. m, and the land price, architectural installation cost and backup facility cost accounted for about 20%, 25% and 14% respectively, while the management fees, selling fees and profits accounted for about 41%. No wonder a real estate developer said, "After running real estate development, a businessmen would find any other sector tasteless."

Third, low priced purchasing and restructuring of SOE. In the process of low priced purchasing and restructuring of SOE, some local governments sold them at half price under the guise of "preferential policy." For example, in Changsha city of Hunan province, the state retained 20% of the stocks and the remainder were sold at a "preferential price of 50% discount so long as it was purchased in a lump sum, that is, the buyer could buy it off at 40% of the price. Some local governments sold SOE out totally in the form of "zero purchase" on an account, which was virtually offered gratis. More local governments carried out black box operations and made under-the-counter deals in the process of appraisal and auctioning. Invisible assets were usually dispensed with in price appraisal. As a rule, the price estimate was at least lower than the practical value by 20% to 50%. And non-operational assets deductions were even

more problematical and such assets occupied a high proportion. So after deducting the non-operational assets, the remainder assets of an enterprise would be next to nothing. Even the iota remainder, most buyers would be in arrears in payment, mostly making payments by installments in the form of loans, with the loans and debts to be repaid in the form of exemption from income tax and with the loan interest incorporated into the cost. This was practically tantamount to "purchasing" state-owned assets with state-owned assets and the values created by the workers as well as surplus labor. There was scarcely any difference from "zero selling."

#### (2) PE realistic social evaluation

Karl Marx pointed out, Capital would be emboldened once given appropriate profit. Capital would be ensured utilization everywhere at a profit of 10%, become activated at 20%, would risk in desperate danger at 50%, would trample all human laws at 100% and would dare commit any crimes and even risk being hanged at 300%. It would stir up turmoil and disputes if they could bring profits.<sup>34</sup> The experience of maturing of most PE including large ones and their malpractices in violating state laws and squeezing the workers (For information on labor-capital clashes, see Appendix 1) were verifications of Marx's profound exposition of the nature of capital as well as the main realistic grounds affecting members of Chinese society in their evaluation of the social group. Some sociologists hypothesized that the way

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34 *Capital* V.1 Chapter 24, *Selected Works of Marx and Engels*, V.2 p.265 People's Publishing House, Beijing 1972.

members of society looked at the PE would to some extent be affected by their approach on the labor-capital clashes in private enterprises. Those who thought the clashes very serious could be more negative about the PE. Conversely, those who thought the clashes not very serious could be more positive about the PE. In the questionnaire they designed two

types of statement about the social image of the PE: one was "the overwhelming majority of individual and private enterprise owners have evaded taxes" and the other was that "individual and private enterprise owners have made great contributions to China's economic development" requesting the interviewees to choose between the two.

*Table 18: Judgment of the intensity of labor-capital clashes in private enterprises and the links between the approaches on PE (Average marks for approval extent)*

Whether agree to following statement	Judgment on clash intensity					
	Not serious at all	Not very serious	Ordinary	Fairly serious	Very serious	For checkup
Most individual and private enterprise owners have evaded tax	2.66	2.74	2.71	2.91	2.92	11.7...
Individual and private enterprise owners have made great contributions to China's economic development	3.47	3.39	3.35	3.31	3.28	4.2"

*Source of data: 2002 Survey on Chinese urban resident social concepts. Reference to Li Peilin and others: Social Clashes and Class Awareness: Social Sciences Document Press 2005 p 196. 1 marks "high disapproval" 2 marks "disapproval" 3 marks "indifferent" 4 marks "approval" and 5 marks "high approval".*

Statistics showed that there was an upward trend of approval to the statement that most individual and private enterprise owners have evaded taxes. Those who considered the clashes "not serious at all" gave 2.66 marks to the statement mentioned above while the marks of approval rose to 2.92 among those who thought the clashes "very serious." Conversely, among those who considered the clashes "not serious at all" the approval extent of the positive appraisal that individual

and private enterprise owners have made great contributions to China's economic development was as high as 3.47 marks. And the approval extent showed a declining trend in that statement as the judgment showed an upward trend regarding the clashes.<sup>35</sup>

## **2. PE's realistic political impact**

The Report on the Classes and Strata in the New Period in China edited by Professor Li Peilin with the CASS Institute of Sociology ten

<sup>35</sup> Li Peilin and others: *Social Conflicts and Class Awareness: Studies on Contemporary China's Social Contradictions*, p.196 -197.

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years ago (Liaoning People's Publishing House December 1995 edition) pointed out, "Nothing is more worrisome for a socialist country than the trend of capital accumulation would create a 'class' that possesses large amounts of wealth and means of production and has independent demands for political interests." The analysis at that time was "Judging from the proportion of the resources owned by PE to the total social resources, their social impact was rather weak. But in areas where they owned a big proportion of the resources, their impact was quite strong." At that time the actual situation was that "In some places where private economy predominated, there appeared debuts of variations in the grassroots political power from down up. Data showed that in some villages private enterprises became the economic pillar, the main work of Party and administrative organizations were to serve them. Correspondingly some large PE had very strong impact on the relevant decisions and personnel arrangements of the Party and government organizations. Utilizing their strong money advantages, some large PE transcended the grassroots cadres and set up 'relations' with some Party and government leaders of a higher level and exerted pressure on the grassroots cadres by means of such relations to impact their decision making. Some leading cadres also enjoyed 'making friends with money bags.'<sup>36</sup>

In the last decade, PE became strong enough to exert political influence at the grassroots

level as well as on higher levels. An article quoted by *Dynamic Developments of Ideological and Theoretical Trends for Reference Issue No.45*, 2,000 published by *People's Daily* pointed out that judging from the process of legislation and reform formation in the second market and transit securities market, a new departmental interest similar to the US Capital Hill has appeared. Such new departmental interests can be referred to as interest groups and can be divided into several levels in terms of their size. The first type was the nouveau nobility who reaped staggering profits under the decade-plus-long double-track system, characterized by a high-profile cultural and power status. The second type was PE who got rich by legal or illegal means characterized by strong clannish and epochal features. China can hardly curb the impact of group interests on legislation process even if it can halt the departmental interests under planned economy conditions.

The latest example evidencing the phenomenon is that, in China today, real estate developers have become an interest entity amassing resources at the quickest speed, in the largest scale and with the highest extent of maturity. They also constitute a group impacting government policy with self-conscious awareness and even with collective force. In 2003 when the People's Bank of China, the central bank, in its Doc. No. 121 demanded all commercial banks strictly control land development loans and architecture loans for

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36 Yicheng: *Certain Data on Private Economy Problems*, carried in *Contemporary Ideological Trends* Issue No. 2, 1996.



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down payment of investment, strengthen personal housing loans management, the real estate developers strongly urged the ACFIB to write a report to the State Council and promoted the formation of the State Council No. 18 document confirming that "real estate industry has become a pillar industry in the national economy" and that "the development is healthy," and repeal a series of control measures on the real estate industry. This could be claimed as the first time that an interest group could impact and even change an important government policy in the two-decade-plus reform.<sup>37</sup> In 2005, after the CPC Central Committee proposed the idea of building an harmonious socialist society, the NPC and CPPCC representatives proposed to restrict the prohibitive housing price; the central government once again introduced real estate control policy. In the past few months the banks tightened money supply. Housing buyers withheld money and adopted a wait and see approach. and the housing market heat declined continuously. But the real estate developers remained rigid, claiming "to unite and tide over the winter." Instead of falling, the housing price went up. On the one hand they could sustained for some time with huge funds they had accumulated over the years. So Beijing real estate bigwig Ren Zhiqiang, who once chaired the ACFIB housing chamber on a rotation basis openly declared, "I maintained that we should not have all common people buy housing... We must satisfy the richest first. I am a merchant. I can not consider the poor.

If I consider them, I'd be wrong as an enterprise owner because investors want me to increase their investment and not to rescue the poor." On the other hand, they tried their utmost creating public opinion, alleging that "there has been a serious undersupply of land, and that the continuous decline of land supply would certainly bring about a soaring housing price," accusing the "government of controlling housing price, which would allegedly have little impact on the rich but would greatly depreciate the present housing owned by the salaried stratum, abruptly depreciating their family assets, and that housing price decline and housing asset depreciation would hit the common people the hardest, and ultimately hurt the average and low wage earner strata."

For interest group activities to achieve genuine effects the most effective way was to ally with administrative power, while the land acquisition and sale behavior of local government officials and their rent hunting behavior in construction projects became a cohesive for such an alliance relations. Real estate developers threatened the whole society that local governments overly depended on real estate pricing for GDP contributions and financial incomes, that many house buyers had the bulk of their incomes confined to repayment of their housing loans, that banks undertook serious risks within the long period of real estate development, construction and even bank loan repayment, and that governments would face social disturbance once the real estate indus-

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37 On real estate examples, the Survey made reference to and quoted from articles released by Professor Sun Liping with Tsinghua University on websites. Reference can be made to *Real Estates Game, Sociology BLOG*, Sun Liping, May 8, 2005.

try collapsed so that they could not but hesitate in regulating and controlling the real estate industry. Correspondingly, the real estate oligarchs tried their utmost to push up the housing price so as to get their interest ensured within the shortest possible time. At present, the housing price in China begins to "politicize." The result of the game among the central and local governments, the real estate developers and common people remains uncertain.

## ***2. Future development of Chinese private economy and a theoretical probe into PE political trend***

### ***(1) Future development of Chinese private economy***

For a period to come there will still be quite a considerable space of Chinese private economy development mainly because:

First, China's huge population has created a huge domestic labor market and consumption market and the present per capita material living standard remains low. Therefore there can be still greater market demand and opportunity created for private economy development no matter in manufacturing or in retail sales, catering and etc.

Second, if the ruling party and government initially permitted the survival and development of non-public economic sectors including individual and private economy to a certain extent out of considerations for the positive role they could play in increasing employment and enlivening the market, then they are encouraging and supporting these non-public economic sectors today as manifested in the increasingly passive dependence on the pri-

vate economy's important role in promoting economic growth and expanding employment and enlivening the market. A direct purpose of the ruling party in stressing the widening of domestic non-government capital's market access is effectively rectify the SOE seriously in the red and create more job opportunities so as to lessen economic burdens of the state.

Third, economic globalization has an increasing impact on China. China is striving hard to become a world factory in manufacturing industry. The advantages so far revealed are seemingly indefinite supply of cheap labor force. The PE intense exploitation of labor and increasingly harsh management mode are all in line with the game rules of economic globalization. In the process of China's consistent integration into the world capitalist production system, PE is a "good student" under the preaching of international capital eligible to get a nice share of the gains in the process of "globalization." Therefore in the foreseeable future the PE will scale up sizably and numerically and the PE stratum will continue to grow. PE is also very confident of their future development (See Table 19).

### ***(2) Theoretical probe into PE political trend***

Since the 16th CPC national congress, the CPC Central Committee with Hu Jintao as the general secretary has continuously raised a series of new theoretical viewpoints including the idea of scientific development and building a socialist harmonious society, which aroused strong repercussions in the Chinese theoretical world.

Some scholars in China pointed out, building

Table 19: PE forecasting of their future development (in%)

Target of forecast	Big development	Considerable development	Same as today	Not so good as today	No comment
Own enterprise	43.5	44.5	6.0	3.0	3.0
Socio-economic development	49.5	42.5	4.0	1.0	3.0
Political institution restructuring	22.0	64.0	9.5	1.5	3.0

Source of data: Nationwide private enterprise random survey by CPC Central Committee United Front Department and ACFIB in 2004.

a socialist harmonious society according to the fundamental Marxist principles necessitates persisting in the dominant position of the public system. They claim that it is impossible to build a harmonious society on the basis of private economy. While being mutually complementary, public and private economic sectors are contradictory to each other. Other scholars pointed out the necessity for the Chinese ruling party to have a proper grasp of private economy development. As far back as one century ago, Dr. Sun Yat-sen, forerunner of the Chinese democratic revolution, stressed the necessity of restraining capital in his "Three People's Principles."<sup>38</sup> True, old-line British and US capitalism experienced a speedy development stage of private capital. But China today has no such "historical opportunity." As is pointed out by Deng Xiaoping, "Anyhow, the socialist system is much better than the capitalist system, which features the jungle law and feathering one's own nest at the expense of others."<sup>39</sup> It is really worrisome now that

the proportion of public and non-public economic sectors has dramatically changed and the main body status of the former is placed in imminent danger. If such a situation were not effectively reversed, the limit of private economy development would be overstepped and the building of a socialist harmonious society would be reduced to idle talk. A third group of Chinese scholars said that in his later years Deng Xiaoping in connection with the polarization of the rich and poor in society has pointed out, "A few people have got so much wealth while the great majority have not. This, if allowed to rage unchecked, will be problematical one day. Unfair distribution will lead to polarization. Problems will crop up at a certain point. This problem must be settled."<sup>40</sup> The CPC's proposition to build a socialist harmonious society is aimed precisely to address such a problem. Therefore in order to attach greater importance to social justice in the field of distribution, it is advisable to change "giving priority to efficiency while taking fairness

38 "Dr. Sun Yat-sen encouraged restraining capital, and pointed out clearly that the gist of restraining capital is to prevent the private capital system from manipulating people's livelihood." *Collected Works of Sun Yat-sen*, p. 120, China Book Co, Beijing 1986.

39 "Reform of the Party and State Leadership System" *Selected Works of Deng Xiaoping*, V. 2 p. 337, People's Publishing House, Beijing 1983.

40 Chronicle of Deng Xiaoping 1975 - 1997 (last v), p. 1363, CPC CC Party Literature Press, Beijing 2004.

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into account” into “giving equal attention to efficiency and fairness.”

But at the same time some Chinese scholars held different opinions. Some scholars held that Chinese reform should not embark on the road of privatization. Not embarking on the privatization road did not mean non-development of non-government economy, which should be developed vigorously and continuously. They objected remodeling the splendor of the state-owned economy, contending that state-owned economy should be readjusted, making whatever retreat necessary and whatever advancement due, with making retreats being the main. Still other scholars held that on the question of efficiency and fairness, while it was necessary to care for the low-paid, attention should also be paid to the enterprise burden-bearing capacity, warning against excessive wage hikes, fear that the investors would shift their industries to other countries where labor is lower paid and our wage earners would be reduced to joblessness.

With regard to economic policy toward the PE, some scholars in China suggested that the ruling party and government persevere in: first, PE are private capital's personalization. They held that private economy should be guided and encouraged to operate legally and honestly within the framework of conduciveness to the national livelihood. It is necessary at the same time to persist in the public economy wielding the state economic arteries and grasping the industries and departments that determine the national economy and people's livelihood. Public economy as the main

body must be supported numerically because quantitative change will bring about qualitative change. Second, the development of productive forces may become a basis and motive force for social development, but when productive forces are developed to a certain level, if the negative factors of market economy are left to play their role unchecked, this would lead to sharpening social contradictions and worsening social clashes with the rich becoming richer and the poor poorer. Therefore GDP growth could no longer be made the only standard of political merits. Implementing the concept of scientific development should aim to enable the broad masses to share the common fulfillment of development. Common prosperity not only refers to income, but also includes property and practical living quality. Therefore it is necessary not only to narrow the gap of incomes among all classes and strata, but also to prevent excessive property gaps through taxation and other policies.

While considering how to promote harmonious economic relations, it is also necessary to keep the relevant political relations in mind. In relation to the political policy towards PE, some scholars in China suggested that the ruling party and government should support first of all the establishment of a sound trade union on different levels of the enterprises, regions and industry. Such trade unions should not only be the extension of a governmental tool, but also the class organization of the workers to defend their own interests. This organization should be strong enough to balance the capital on behalf of the labor. Only when labor-capital forces are balanced strong

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oppression of labor by capital can be avoided and the PE-wage earner relations be genuinely coordinated, thus benefiting both labor and capital. In terms of class relations, in the final analysis, only organization and strength talks. Second, fully encourage workers and farmers to take part directly in deliberating and administering state affairs. The Chinese workers and farmers have a higher educational level than ever before and are capable of political deliberations and participation. Third, permit PE political deliberations and participation within the framework of institutional establishments to articulate their economic needs and political wishes, but keep alert and expose erosions of power and buyoff by money and prevent public power from being used by certain groups at the expense of majority interests.

After more than two decades of reform PE has today become an important force to be reckoned with on the Chinese political arena both economically and politically. Examining the CPC political relations with the PE social group from the angle of persisting in the governing status has become a major, unavoidable realistic issue for the CPC in building a socialist harmonious society. Some scholars in China advised the CPC to have a sober-minded understanding on and far sight into the structure of the Chinese social classes and strata as well as on the orientation of social changes. No ambiguity can be allowed on the issue involving the fundamental orientation of social development and the economic basis and class basis on which it depends for its very survival. It is an objective fact that there has emerged class polarization, interest polarization in the

relations of production, and the polarization of social awareness in the superstructure in China today. Any ostrich approach to evade the factual reality will only bring chaos in ideology and action, bogging oneself down in a passive and dilemma predicament. Only by looking at the reality squarely, making a scientific analysis of and actively cope with the situation from the Marxist standpoint, approach and methods can the CPC maintain its advanced nature and ruling status and enhance its capacity of governing the country and swaying the social orientation and guarantee that the reform effort will achieve the purpose of developing and improving socialism.

In 2003, US scholar Bruce Dickson wrote a book in which he, contrarily to Western traditional political theoretical viewpoint argues that privatization and economic modernization can at least promote the process of democratization indirectly or even directly, championed the envisaged vision that under the unique particularities of China, the integration of PE into the CPC would reinforce the strength of the current political regime. According to Dickson the CPC, being aware of the potential threats posed by the PE against its ruling party status in the context of tremendous change in the Chinese economy and society, has worked out two tactics to cope with the situation: firstly, set up some Party and government leaders-sponsored business associations to achieve the purpose of setting up some communicative mechanisms between the authorities and the PE; secondly, revise the Party constitution and admit PE into the Party so as to broaden the social basis of its ruling party position. According to Dickson, PE prefer a good order to de-

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mocracy and would at least opt for deeper integration into the current institutions at the present time. Of course it is not impossible for them to become the chiefs in China in the future, depending on the degree of PE integration with the current political regime and the extent of their political involvement willingness.<sup>41</sup>

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41 Liu Jianlin: Review on New Book: (US) Bruce J. Dickson *Red Capitalists in China: The Party, Private Entrepreneurs, and Prospects for Political Change* Cambridge University Press, New York 2003, carried in *Washington Observers Weekly*, September 17, 2003.

# Labor-Capital Contradiction in Chinese Society at the Present Stage

In private enterprises in China at the present stage, capital is highly concentrated in the hands of the main investors, so called private entrepreneurs (PE). Surveys showed that of the assets in private enterprises at the end of 2003, PE occupied 70%, other individuals occupied 20% and other legal persons occupied some 10%. For the past decade the percentage remained basically unchanged. Meanwhile the power of enterprise management was also highly concentrated in the hands of the PE. Surveys also showed that 92.9% of the main investors were concurrently the presidents or (general) managers of the same enterprises. The enterprise modes of major decision making were first, PE's personal decision (36.4%), secondly, decisions made by the Board after deliberations (26.0%), third, decided by the PE together with the major management (19.7%). Even in private enterprises where Party and trade union organizations were set up, the PE personal arbitration situation remained basically unchanged. Few private enterprises put in place the worker congress system. Ordinary workers had no channels to join enter-

prise management and were completely placed in a position of being managed and dominated.

In private enterprises in China at the present stage, every PE has a set of procedures under which all faults, deliberate or not, are fined; for example, a worker will be fined if he happens to sit in a chair for a moment, chats or laughs for a while, or get late for a few minutes, or damage a certain part of a machine or make a product without reaching the quality specifications. And the fine often exceeds the losses actually incurred.<sup>42</sup> The portrayal by Marx, though referring to the factory owners in Britain 150 years ago, but is found quite true and accurate when applied to the PE today, despite a lapse of 150 years.

## **I. Long hours of work under poor labor conditions**

In private enterprises in China today workers normally work extra hours and extra shifts, and PE prolong work hours in disguise for increased wage quotas. The 40-hour work a week system stipulated in the Labor Law

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42. *Selected Works of Marx and Engels* V1, p. 195 People's Publishing House, Beijing 1972.

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and the rights of workers to have days off even on national holidays have not been enforced.

In a 2003 Survey of Zhejiang Province, Xia Xiaoling of the Macro-economic Research Institute of the State Development Planning and Reform Commission pointed out, that the private sector development in Zhejiang Province was "very influential nationwide. A national mass media said Zhejiang was the pacesetter for the 'Chinese private economy,' and Wenzhou was referred to as a 'pioneer and typical example' of Zhejiang Province, and a place of 'pilgrimage for scripture.'" "In 2003, the number of people employed in private enterprises in Zhejiang totaled 4.84 million, ranking first nationwide." But it was in that province that extra work hours ran rampant everywhere and employers often lowered the wages below the statutory minimum. The report of relevant organs showed rampancy of no extra shift pay in extra hours work. For example, in Wenzhou where privatization was the most thoroughgoing, SOE and CE accounted for only 1% of the total number of enterprises. They were the good implementers of labor hour stipulation while large numbers of small and medium-sized enterprises were very seriously involved in extra-hours work. It was common to work 12 hours or more a day with only few Sundays off. In labor-intensive enterprises like leather making, electric appliances, weaving and knitting, cloth making enterprises it was even more serious.

A random questionnaire survey in Lucheng District of Wenzhou city disclosed that 41% of the workers worked for more than 12 hours a day, 52% for 8 to 12 hours and only 7% for less than 8 hours. Such a condition was also quite representative in the whole province. Long-term extra-work and over-exhaustion was also one of the reasons underlining the accidents.<sup>43</sup>

In general private enterprises were far behind the SOE in terms of labor protection. Driven by market profits, many of them were set up in great haste without considering labor protection at all. Even after production was stabilized, they were unwilling to increase investment to improve labor protection facilities and harmful technologies. Shortage of labor protection funding, poor production equipment, backward technologies and the lack of protection facilities reduced private enterprises to poor labor conditions, and quite a number of them to very poor conditions. This was especially in mining, textile, machine-processing and chemical industry sectors, where the work environment was very bad, powder dust, noise pollution, high temperature, poisonous and harmful gases were left uncontrolled, and work accidents often took place, seriously endangering the physical health of the workers and even their very lives.

At the CPPPC National Committee session in 2005, a National Committee member told the

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43 Xia Xiaolin: "Analysis of Labor-Capital Contradiction behind Non-Government Economy Growth," carried in *Non Government Economy for Internal Reference*, July 16, 2004



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session that 60% of the country's accidents and about 70% of the casualties occurred in non-public small enterprises in the past two years. In Leqing City of Zhejiang Province some PE used large numbers of bad quality punching machines without any safety devices. In 2002 alone, more than 5000 workers got their fingers crushed and local hospitals had to perform more than ten finger-joining operations per day. But these injured migrant workers were mostly sent off in great haste by the bosses without any adequate compensation as stipulated by law.<sup>44</sup>

Such a situation was even more typical in private coalmines. China depends on coal for 70% of its energy demand. Rapid economic development led to drastic growth of coal consumption. Malicious production accidents broke out time and again and could not be brought under control despite repeated warnings. The chief of the China State Safe Production Supervision Administration admitted that China's coal output accounted for 31% of the world's total, but coal mine casualties accounted for 79% of the world's total, a death toll of three for exploring every million tons of coal, 30 times more than Poland and South Africa, and 100 times more than the United States. In 2004 more than 6,000 miners died in accidents. This meant that in order to support economic development with adequate coal, the Chinese coal industry has to sacrifice at least 15 miners' lives every day.

Due to large scale concealment the actual figure was even bigger than the government statistical figure. For example, in Hejin City of Shanxi Province there were 14 mine accidents with 95 deaths in five years, but only 7 cases with 11 deaths were reported to the higher authorities.<sup>45</sup> Most mine disasters broke out in privately owned small coalmines. In the first half of 2005, the national death toll of coalmines was 2,672, of which 2,195 occurred in non-state-owned coalmines, accounting for 82%.<sup>46</sup> The privately owned coalmines had seriously inadequate inputs in safe production and basically did not give safety training to the miners. Miners were even required to get down to coal shafts that they clearly knew to be dangerous. Once a miner died, they just compensated a meager sum of 10,000 to 20,000 yuan, and even burnt the dead body to eliminate criminal evidence (as for example in Fanzhi County of Shanxi Province in 2002). The mine owner traded miners' low-priced lives for staggering profits. A coal pit with an annual designed capacity of 300,000 tons would yield tens of millions of yuan in net income per year. In the September 2005 Beijing business car exhibition, 80 luxury cars were sold within only five days, mostly paid on the spot and rode off directly. Among the buyers, the most extravagant ones were Shanxi private coalmine owners. They also bought off the scores of suites in a Beijing CBD luxury building, the cheapest one priced at more than 1.6 million yuan.<sup>47</sup>

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44 *Workers Daily* September 25, 2003.

45 *Xinhua net* May 29, 2002

46 *China Youth News*, July 20, 2005.

47 *Workers Daily*, September 23, 2005.

## **II. Tremendous income gap between hired laborers and PE**

Six random surveys made by the CPC CC United Front Department and the ACFIB showed that when the private enterprises in the early 1990s just debuted, that the SOE were in an advantageous status and their wage level was a referential line for that of the hired laborers in non-public enterprises. When hiring labor the non-public enterprises had to pay the same wages as in the SOE. The data of these random surveys made by the CPC CC United Front Department and the ACFIB showed that in the early 1990s, the SOE were in an advantageous status and their wage level was a referential line for that of the hired laborers in non-public enterprises. When hiring labor the non-public enterprises had to pay them the same wages as in the SOE.

Most of the hired laborers in Chinese private enterprises were originally farmers. The wages reduction adversely affected their benefits to a large extent. In 2004 there emerged serious shortage of farmer-turned workers in certain areas of Guangdong, Fujian and Zhejiang provinces. Some economists optimistically considered the shortage of labor force would automatically upgrade the work wages and the private enterprise workers would benefit from the labor market mechanism operations in their conditions. In 2004 a series of policies in favor of agricultural development enabled farmers to get such an income increase as never over the years, raising the comparative benefit of agriculture, some farmers no longer opted for quitting home in search of jobs. The farmer-worker shortage in certain areas was obviously prompted by the effect of "pulling" to get back

home. But from Table 1 Column 3, we can see that the tremendous gap between migrant work benefit and agricultural production benefit constituted a "pushing force" from home. Some researches said in China today, a benefit proportion of 1.5 times would be adequate to encourage job-hop, 2 to encourage quitting hometowns in search of jobs and 10 to encourage adventures abroad (5 according to my personal study of emigrant labor). When the proportion is 5, even the agricultural benefit goes on improving, it is still impossible to change the comparative advantage of non-agricultural benefit within a short period of time. Thus it is still impossible to radically reverse the trend of farmer departure from agriculture. Surveys showed that the average annual wages in Guangdong and Zhejiang PE were 11,297 yuan and 12,173 yuan respectively, while the figures in Shanghai and Jiangsu Province were 14,527 yuan, 30% more than in Guangdong and 20% more than in Zhejiang. Neither Shanghai nor Jiangsu had shortages of farmer workers. In the labor market the supply of labor greatly exceeded the number of labor hands that economic growth could absorb so that labor was placed in an disadvantageous position in the composition of market elements. It is difficult to change this general trend of development in a very long period to come.

According to unified state policy stipulations, all enterprises of whatever ownerships shall pay three social insurances for their workers (medical, old age pension and unemployment) and non-public enterprises shall also do the same. But the 2004 survey by the CPC CC United Front Department and ACFIB showed

*Table 1: Private enterprise worker wage changes*

	Column 1	Column 2	Column 3
Year	Average annual wages for private enterprise workers (in yuan)	Times or proportion to SOE	Times or proportion to per capita rural household net income
1994	5,027	1.05	5.7
1996	5,723	0.91	4.2
1999	8,000	0.94	5.5
2001	10,251	0.92	7.0
2003	9,023	0.62	5.9

*Source of data: Column 1 figures from the nationwide random surveys of private enterprises by the CPC CC United Front Department and ACFIB in 1995, 1997, 2000, 2002 and 2004; figures in other columns derived from calculations of the corresponding figures in the Chinese Statistics Yearbooks in the respective years.*

only 33.4% of the surveyed made medical insurance, only 38.77% old age pension insurance and only 16.6% made unemployment insurance. Furthermore, these enterprises did not insure entirely for the long-term hired laborers, but insured merely for a very small number of workers (usually the technical workers whom the enterprise intended to employ on a long-term basis, relatives or close relatives to the PE). As a matter of fact, the number of workers insured medically accounted for only 14.5% of the surveyed enterprises' total number of workers hired for the whole year, 22.7% were insured for old age pensions and 6.0 % against unemployment. The proportion was quite low.<sup>48</sup> Such a situation was very unfavorable for the hired laborers. Once injured or ill or fired, they would be deprived of any statutory social aid, and when incapacitated, they would be reduced to family or social burdens.

Xia Xiaolin's Zhejiang Survey findings were basically the same. "According to the 2002 Zhejiang Provincial Statistics Bureau Report, compared with the public enterprises, the private enterprises were the poorest participants of social security. By the end of 2001, the province had 2.36 million workers in urban private enterprises and individual businesses. But usually private enterprise workers were not ensured their rights and interests and the insurance rate of their social security was all lower than that of their counterparts in SOE and CE. Random surveys showed the insurance rate of basic old age pension for urban workers in the whole province was 93.1% in SOE, 88.9% in CE, and 53.7% private enterprises, the unemployment insurance rate was 72.0% in SOE, 58.7% in CE, and 24.1% in private enterprises and the medical insurance was 79.9% in SOE, 60.9% in CE, and 37.0% in private enterprises."<sup>49</sup> In Wenzhou City, the "social security problem was

48 Dai Jianzhong: "Coordination of Labor Relations: An Important Content of Non-Public Enterprise Healthy Development," carried in *China Party and Government Cadres Forum* Issue No. 4, 2005.

49 Zhejiang Provincial Statistics Bureau: "Low Social Security Coverage of Private Enterprise Employees in Zhejiang Province," *Zhejiang Statistics Net* Dec. 3, 2002.

particularly serious. Only 50% of the enterprises in Wenzhou participated in old age pension insurance. Most private enterprises insured remained at enterprise managerial and stockowner levels while the first-line workers were basically left out of insurance. In the third quarter of 2003 only 40% of the individual and private enterprises and other non-government enterprises took part in the social security insurance.<sup>50</sup>

Compared with the hired laborers, the PE conditions could be claimed as worlds apart. The 2004 survey by the CPC CC United Front Department and ACFIB revealed that the annual income of a PE was 202,000 yuan referring to the enterprise profit bonus also including the income of PE as manager. The average net profit of such private enterprises was 1.29 million yuan (the median being 390,000 yuan), of which 18.3% or 215,200 yuan (the median being 70,000 yuan) was investment bonus. PE made 78.6% of the total investment; hence the bonus of 169,000 yuan. Thus PE annual income was 22.4 times that of a worker 9,000 yuan.<sup>51</sup> According to the 2004 managerial salary survey released by Zhongren net, the salaries of non-government enterprise manager was 5,670 yuan (after-tax monthly pay, including all cash incomes such as wages, bonus and subsidies,

but excluding incomes from concurrent posts).

According to the data collected from managers in Beijing, Shanghai, Guangzhou and Shenzhen, that is, an annual salary was about 68,000 yuan.<sup>52</sup> If this is taken as the base of calculation, the net profit bonus of PE will be 134,000 yuan, still 14.9 times the annual income of a hired laborer. If we apply the same method to calculate the 2,000 survey data, the PE income in that year was 169,000 yuan, 20.7 times of the worker income. The net profit and total worker wages ratio was 179%. In recent years the relative poverty of private enterprise hired laborers has been worsening.

The income gap between PE and hired laborers is enormous, but the polarization between them is manifested most seriously in terms of property ownership, especially the ownership of the means of production. A 2004 survey showed PE owned a median 965,000-yuan worth means of production while the hired laborer was the seller of labor without any means of production. This was the most essential difference between an employer and a hired laborer. According to the data of 2005 Hu Run Top Hundred Richest, 400 were listed as Chinese multimillionaires owning more than 500 million yuan in personal assets.

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50 Xia Xiaolin: "Private Sectors: Labor-Capital Relations and Coordination Mechanism," carried in *Management World*, Issue No. 6, 2004.

51 "China's 6th Random Survey Data and Analysis of Private Enterprises in 2004" China Private Economy Yearbook (2002 - June 2004), p. 11 - 53, China Zhigongdang Press 2005.

52 www.ChinaHRD.net: "2004 Survey on Salaries of Managers" www.ChinaHRD.net Oct. 25, 2004. Besides, according to a survey carried out jointly by Managers magazine and a survey Co on the wages of managerial personnel for four consecutive years: the average annual wages of managerial staff in developed areas in 2001 were about 84,279 - 91,350 yuan, with Shanghai ranking first, Shenzhen second, Guangzhou third and Beijing fourth, very close to the www.ChinaHRD.net.

Making up only 3/10,000,000 of the national population, these 400 multimillionaires owned a wealth approximately equivalent to one/sixth of the 2004 GDP. The average property of the first 100 among those 400 multimillionaires increased from 2.4 billion in 2004 to 3.5 billion yuan in 2005, growing by 45.83% within the span of only one year. The top rich had a property as high as 14 billion yuan. Defined according to the 2004 Global Fortune Report by the global topnotch asset management company the Meilin Group which set an owner

of financial asset of over US\$ one million (not including housing) as the rich, there were already 236,000 rich people in China, occupying a total asset of US\$969 billion.

From the data above, we can see clearly the practical exploitation of surplus value by PE. But as the PE saw it, such a tremendous income and property gap was rational (See Table 2). This shows that differences between classes and strata are not only manifested materially, but also ideologically.

*Table 2: PE views on economic and enterprise development (in %)*

		Endorsing the statement on the left	Neutral or no comment	Endorsing the statement on the right	
1	More equal pay for all	12.2	7.7	80.1	More pay to more work and big gap inevitable
2	More pay for management than for physical labor	79.0	17.4	3.6	More pay for physical labor than for management operation
3	Widened income gap conducive to production	57.9	26.3	15.7	Widened income gap unfavorable to production
4	Capital key to enterprise survival	66.0	19.3	14.7	Labor key to enterprise survival
5	Priority to remunerating capital	50.5	20.1	29.4	Priority to guaranteeing worker wages
6	Private capital yield an exploitation	10.2	16.3	73.5	Private capital yield not an exploitation

*Source of data: 2002 Survey on Chinese Private Enterprise Development and Social Participation sponsored by Professor Chen Jianmin with HK Chinese University.*

### **III. Labor-Capital Contradictions Tending to Sharpen**

At present the most direct motive force for the private enterprise hired laborers is to im-

prove their material lives. Therefore the wage levels are often the most important reason accounting for labor-capital tensions while injuries of workers person and personality such

as physical penalties, beatings, humiliations, restriction of personal freedom (confinement to dormitory areas, withholding of identity card at factory entry and body search when going off shift, etc.) were often the blasting fuse to labor-capital conflict.<sup>53</sup> Judging from the status quo, labor conflict did not take place in a radical way. High mobility rate is a form of worker protest. But this is spontaneous behavior based on individual and unorganized basis. It is helpless in forming a long-term and stable labor-capital relationship and is unfavorable to raising enterprise technical and technological levels and guaranteeing product quality. An enterprise can continue to operate if it is simple labor-intensive. But it will face huge difficulties in readjusting labor-capital relations if it is to develop in the orientation of containing higher technical content.

Today, PE development still features "primitive capital accumulation" and PE generally have not experienced any "moral baptism," and never enhanced respect for people to a due height. Although the worker did not sell labor as an ordinary commodity when selling his labor, nor did he sell it together with the laborer himself, yet capital was not aware of the necessity to respect laborer in terms of personality and dignity as well as his social rights to equality when buying labor. For the sake of competition and profiteering, PE usually resorted to "clannish management" to reinforce enterprise cohesiveness and dissolve

labor-capital contradictions. As to the non-clannish workers they would change them into "Para-family" and "clannish members" and set up a bond of patron and protégé similar to inner family relations, gradually planting the concept of the elder and younger, the superior and the inferior, "filial and fraternal love" into the family and utilize traditional culture to maintain enterprise stability. Combining tool rationality and secular rationality, "clannish-oriented development" imposes family mode on the work environment, turning public relations into private relations. Just contrary to what was described in the Communist Manifesto, some PE in China today are trying their utmost to cover the naked, cold-blooded enterprise "cash transactions" in the veils of family-like emotions. This was precisely a manifestation of PE smart skills.

But in recent years, along with the intensified salary payment in arrears, private enterprise labor-capital contradiction worsened. According to incomplete ACFTU statistics, the 2003 wages in arrears totaled 41.7 billion yuan involving 8.459 million people and the hardest hit were the migrant farmer-turned workers.<sup>54</sup> The Jiangsu provincial federation of trade unions organized the municipal and county trade unions to make a random survey of 11,665 enterprises. The survey showed that salary payment in arrears for migrant workers accounted for more than 60% of the total amount of enterprise salary payment in arrears. Pri-

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53 2004 nationwide random survey results of private enterprises by CPC CC United Front Department and ACFIB and SAIB showed 54.3% of private enterprise workers were former farmers, 20.3% were urban laid-off workers.

54 Yao Zhongqiu: "ACFTU Supports Workers," *China Newsweekly*, Nov. 15, 2004.

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vate enterprises, small and medium-sized enterprises and individual businesses were most serious in salary payment in arrears. It was commonplace that the boss issued only living expenses at ordinary times and delayed the payment of wages until the end of the year. In some places this was even made a conventional practice. Besides a questionnaire survey of 580 migrant workers showed 27.9% of the migrant workers wage payment was delayed, and the longest delay lasted three years and more.<sup>55</sup> Workers had to endure the delayed payment with forbearance for the sake of keeping the job. Malicious delayed wage payment made up quite a proportion. If ever the boss said at the year end that he had no money or hid himself up, workers would find they had worked for the whole year for nothing and went empty handed. Instead of sending money home to support their families, they would rely on the family for travel expenses. Some even had to return home begging all along. At the end of the lunar year, when accounts were expected to be settled, there would always be a spate of extreme cases, such as committing suicide by collective jumping into deaths and self-immolation on account of failure to claim back the delayed wage payment. There were also cases of risking danger in desperate money lootings and murders.<sup>56</sup>

Only by getting organized can the disadvantaged expect to gain balance with the advantaged capital. But many private enterprises refused to set up trade unions. From the 2002 survey sponsored by Professor Chen Jianmin with HK Chinese University on PE social participation in Guangdong and Shaanxi provinces showed that only 26% of the PE were in favor of setting up trade unions in their enterprises. Related trade union statistics showed that there were 1.13 million non-public enterprises including private and foreign-invested enterprises had organized trade unions with a total of 36 trade union members, the respective rates of trade union organization and worker membership were only 30.7% and 32.9% respectively. Some 100 million farmer-workers were left out of the trade unions. A small number of local government officials kept silent about this in hopes to lure investment by means of such a gesture to promote a general local economic growth. Instead of being fair to both the enterprise and the workers, coordinating and protecting their rights and interests, they overly leaned on the side of the PE, while worker rights and interests became sacrificial offer for economic growth.

In short, due to large surplus labor with a huge labor reserve waiting for market capital choice, workers had little if any bargaining condition.

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55 Geng Lian: "Survey Shows more than 60% of Farmer-Workers Wages Payment in Arrears," Xinhua net Dec. 13, 2004.

56 A recent case reported was Guangxi farmer-worker Wang Binyu, who angrily killed four people with a knife to revenge for being beaten up in urging wages payment. After Xinhua reported the case, strong repercussions were aroused in society. Many sympathized with Wang who was compelled to kill others. A Ningxia media report said in 2005 in Huinong district alone several criminal cases occurred because of delayed payment of wages to the farmer workers. Nine were killed.

In the contradiction between capital and labor, labor was in an absolutely disadvantageous position. Besides, most hired laborers were former farmers who were newcomers on the threshold of any industrial society; hence a very worrisome predicament for the hired laborers in the enterprise labor-capital standoff. But with the constant increase of hired laborers, the increasing length of their enterprise access, they kept strengthening their capacity to gain information and external communications, and they would probably step up and intensify their resistance against capital.

As a matter of fact labor-capital contradiction became a major social problem in China today. For example, in Guangdong province in 2002 it was made felt that nearly three out of five foreign invested and private enterprises delayed, forcibly reduced and even turned down worker wage payment. The contradic-

tion triggered by labor relations in foreign-invested and non-government enterprises became the main factor of social instability in the Pearl River Delta region.<sup>57</sup> In 2004, "with the rapid increase of labor-capital disputes in the city of Shenzhen, the number of people sending letters of complaints on labor security problems hit 3,463,000. Labor-capital contradiction became one of the most basic social contradictions in the city, and were obviously very harmful to the society."<sup>58</sup>

The Institute of Sociology/CASS survey of social contradictions in 2002 – 2004 demonstrated that the urban residents became aware that of all social conflicts in the society of today, labor-capital contradiction in private enterprises stood out as the most intense, and of all the labor-capital contradictions in enterprises of all ownerships, those in private enterprises were the most intense. (See Table 3 and 4)

*Table 3: Urban residents' judgment of seriousness of Interest conflicts among all interrelationships*

Structure of interrelations	Serial order	Structures of all interrelationships	Serial order
Labor-capital in private enterprises	1	SOE managers and labor	5
Rich and poor	2	Labor-capital in joint ventures	5
Cadre and masses	3		
Labor-capital in foreign enterprises	4	Farmer and resident	7

*Source of data: 2002 social concept survey on Chinese urban residents. Quoted from Li Peilin and others: Social Conflicts and Class Awareness: Studies on Contemporary China's Social Contradictions p. 166, Social Sciences Literature Press, Beijing 2005.*

57 "More than Half of the Foreign Ventures and Private Enterprises Have Delayed Wages Payment" China News Agency, April 27, 2002.

58 *Workers Daily*, August 5, 2005.



*Table 4: Urban residents judgment on intensity of Labor-capital conflicts in enterprises of different ownerships (in %)*

Type of enterprises	No conflict	Few conflicts	Very little conflict	No small conflict	Very serious conflicts
SOE Manager and laborer	6.1	19.4	46.0	21.4	7.0
Labor-capital in private enterprises	4.9	15.9	39.6	28.0	11.5
Labor-capital in foreign enterprises	6.5	21.6	39.3	23.4	9.2
Labor-capital in joint ventures	6.3	20.8	42.6	22.9	7.3

*Source of data: 2002 social concept survey on Chinese urban residents. Quoted from Li Peilin and others: Social Conflicts and Class Awareness: Studies on Contemporary China's Social Contradictions p. 183, Social Sciences Literature Press, Beijing 2005.*

## Privates Entrepreneur's Social Attributes

### I. Chinese Theoreticians Controversy on Whether PE Is a Class or a Stratum

Contemporary Chinese theoreticians are locked in endless controversy on what a class and a stratum is. Behind this conceptual controversy is the discussion on which one PE belong. The reason why some Chinese theoreticians today regard PE as a stratum instead of a class is based on the following two viewpoints:

One viewpoint is that theoretical terminology must serve the modern political terminology. Here the political terminology refers to the fact that Deng Xiaoping, the chief architect of China's reform and opening up, stressed time and again that we will never allow the generation of a new bourgeoisie.<sup>59</sup> "It will be difficult for millionaires to grow out of our socialist system."<sup>60</sup> "Should there be born a so-called new

bourgeoisie, then we would really be on an evil track."<sup>61</sup> Because of Deng's political statement, if anyone calls PE a class, then he is tantamount to consider the reform as a failure. Secondly, in Chinese the word "class" refers to the class concept in the Marxist sense. It refers to a group of people defined according to the ownership of the means of production, related to each other in interest conflict, antagonisms and struggles. This term reminds of serious social conflicts, turmoil or interpersonal scrambles. The term sounds repulsive and negative to some scholars and civilians. On the other hand, the term "stratum" is often considered as the concept of a group which sounds not so conflicting or of great hierarchy nature.<sup>62</sup> Out of considerations of these two factors, scholars that hold this viewpoint call the PE a "stratum" instead of a "class".

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59 "Interview with US Correspondent Michel Wallace", *Selected Works of Deng Xiaoping*, V. 2, p. 172, People's Publishing house, Beijing 1983.

60 People's Daily, Sept. 15, 1986, deleted from the *Selected Works of Deng Xiaoping*.

61 "Only by ideals and discipline can we unite," *Selected Works of Deng Xiaoping*, Vol. 2 p.111, People's Publishing House, 1994.

62 Lu Xueyi: *Research Report on Contemporary China's Social Strata*, p. 6, Social Sciences Literature Press, Beijing 2002.

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The other viewpoint is that they call the PE a stratum instead of a class mainly because they disprove the scientific character of the Marxist class theory. According to them, it is too coarse to define classes merely out of the economic structure based on the ownership of the means of production, contending that social, political and cultural factors are all separate variables, such as politics or power, occupational reputation, education and knowledge, etc. In other words, scholars holding this viewpoint consider that classes are not decided by economy alone, but by a diversity of economic, political and cultural factors. From this angle, they consider the PE has not yet formed a class but remains a stratum.

Different from the two viewpoints mentioned above, scholars in China who uphold Marxist class theory do not think the terms class and stratum as two concepts of social stratification as antagonistic to each other. While using the class concept, Marx and Engels also used the concept of stratum on many occasions. In their works when involving the relations of classes and strata, they used the following four ways: First, referring strata as parts of a class; secondly, equating a class with a stratum; thirdly, using class in the sense of a stratum; fourthly, tending to use stratum when the class nature of the social group remains unclear.

But generally speaking, Marx and Engels used stratum as a component of a class. The basic Marxist approach on this issue is that a class is a social group composed of people with the same status in the system of a certain relation of production, while a stratum is a ladder

of social status formed on that basis by dividing people of different social features from multiple angles. A stratum is a sub-social group of the same class composed of people with identical features of income, occupation and educational level. A stratum reflects the diversity and complicatedness of a social structure of people in general conformity in the relations of production.

Countering the first viewpoint, Chinese scholars who uphold the Marxist class theory pointed out that so long as commodity production and market economy exist, there will emerge class polarization in the social structure correspondingly. This is an objective fact that cannot be overlooked. In a society when education is quite universal and mass media is very well developed, the Chinese are very clear about the factual class polarization in the past two decades and more. Therefore, only by looking squarely at the social fact of class existence, allowing different classes to articulate their interest demands within the framework of socialist legal institutions and dissolving contradictions according to the principle of social justice and making conciliations through negotiations will it be possible to avoid intense class confrontations.

Countering the second viewpoint, the Chinese scholars who uphold the Marxist class theory pointed out that it is too arbitrary to declare the Marxist class theory failed to consider the political and cultural factors. In its cognition of a class, apart from stressing economic interest oneness as decisive factor, Marxism gave full consideration to the roles of such factors as "life styles," "educational levels,"

"national ties," and "political organizations." In his later years, Engels pointed out, "According to the historical viewpoint of materialism, the decisive factor in the process of history in the final analysis is the production and reproduction in real life. If anyone makes distortions here, alleging economic factor as the only decisive factor, then he is turning the proposition into an abstract, absurd empty word without any content." But at the same time he emphasized that "economic condition is the base but it is the superstructure factors that affect the process of historical struggle and mainly decide the form of struggle under many circumstances; the various political forms of class struggle and the results of the struggle -- the constitutions formed by the class that emerged the victor, the various forms of rights, as well as the reflections of these practical struggles in the brains of the participants, the political, legal and philosophical theories, the interactions of all factors manifested here, while among all these interactions, it is in the final analysis the economic movement that will forge ahead as a matter of course through endless accidental events. ..."63

## **II. Basic Viewpoints of Chinese Marxist Scholars on PE Social Attributes**

Marxists hold that classes are a historical field and the emergence and existence of classes is a historical fact and the outcome of human society development to a given historical stage.

Meanwhile, classes are first of all an economic field. Class polarization is an outcome of private economic relations development. "These social classes locked in struggle are always an outcome of the relations of production and exchange. In one word, they are the outcome of economic relations in their own times."<sup>64</sup> Lenin gave a Marxist definition to class when he pointed out that "classes refer to large groups who are different in historical status in a given social production system, different in relations to the means of production (mostly stipulated in law), in the roles played in social labor organization and thus also different in the form and amount of social wealth under their sway. Classes are groups of which one can occupy the labor of another due to their different status in a given social and economic structure."<sup>65</sup>

Marxist standards for class division mainly target class-in-itself. Marxism holds that at the stage of its initial formation, a class is basically a class-in-itself. Although sharing the same interest demand, the social members of the class require a period of change from class consciousness in reflecting their internal interest demands to a common external unified political manifestation. But class consciousness in protecting and acquiring common interests will eventually be manifested in action, thus a class-in-itself will eventually change into a class-for-itself." In analyzing the French farmers in the middle of the 19th century, Marx

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63 *Selected Works of Marx and Engels*, vol.4, p. 477, People's Publishing House, Beijing 1972.

64 *Selected Works of Marx and Engels*, vol.3, p. 739, People's Publishing House, Beijing 1972.

65 *Selected Works of Lenin*, vol. 4, p. 11, People's Publishing House, 1995.

resembled them to "a package of potatoes in which separate potatoes are put together." "They formed a class as the economic conditions of millions of families differentiated their living styles, interests and educational levels from those of the other classes and made them antagonistic with each other." Here Marx referred to the formation of that class as a class-in-itself. But "they had not yet formed a class in the sense that their interest oneness did not bring them into any interrelationship, or into any nationwide contacts or into any political organization."<sup>66</sup> Here Marx referred to the fact that that class had not yet become a class-for-itself.

Chinese scholars upholding the Marxist class theory hold that the PE of today are fully in line with the definition. By the end of 2003, there were 3.006 million private enterprises with 7.728 million investors employing 35.263 million workers, accounting for 9.3% of the total non-agricultural labor force in the whole country in the same period. PE had become an important group in China's social class structure at the present stage. Compared with the national bourgeoisie in the early days after the birth of New China, which was defined as one of the four major classes at the time although it was composed of merely 160,000 members, there is no denying that the PE occupies an important place in the social class structure. It is an undisputed fact that the group owns the means of production, and occupies a position of managing and wielding the process of production and therefore possesses the worker

surplus value; hence, we can claim that the PE group has become a class according to Marxist standards on class division.

Considering that it has been 26 years since the introduction of reform in China counting from the Third Plenum of the 11th CPC in 1978, while the period of planned economy lasted only 26 years too, counting from economic rehabilitation in 1952, the reemergence of market economy in China can be counted as a historical period. Considering that since the July 1 speech in 2001, PE have been able to join the Communist Party, have had more and more forms of deliberating and administering state affairs, have had ever smoother channels to articulate their economic and political claims at both local and central levels, have had more and more theoretical and political spokesmen to articulate their interest demands and have preliminary made available their means to strive for and defend their own interests in the course of legislation and law enforcement and with ever more obvious effects, we can entirely claim that the PE of today has grown from a class-in-itself" into a "class-for-itself."

In the Preface to the first edition of *Capital* Marx pointed out that a capitalist is "an undertaker of given class relations and interests," and that "he is a product of such relations in the social sense, no matter how he may try to extricate himself from such relations personally and subjectively." Therefore it is not a matter of subjective preference or disgust to define the

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66 *Selected Works of Marx and Engels*, vol.1, p. 693, People's Publishing House, Beijing 1972.

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PE as a class, but a matter of passing objective and scientific judgment on a social fact.

### **III. On Whether the PE is a New Middle Class or Not**

Marx was one of the earliest social scientists who noticed the "middle class" phenomenon. He maintained that the struggles waged by the middle class, that is, petty industrialists, small businessmen, handicraftsmen and farmers against the bourgeoisie were all intended to defend their survival against extinction as the middle class. Therefore they were not revolutionary, but conservative. Not only so, they were even reactionary because they tried to reverse the wheels of history. If we said they were revolutionary, that was because they would turn around and join the proletariat, they were then defending their future interests instead of the present, they would then quit their original position and shift over to the standpoint of the proletariat."<sup>67</sup> Here he referred to the generation era of capitalist society in which the whole society was increasingly split into two major antagonistic camps and into two directly opposite classes: the bourgeoisie and the proletariat."<sup>68</sup> The social elements left over by former capitalism would split up and the lower strata from the former middle classes ---- petty industrialists, small businessmen, and petty interest consumers, handicraftsmen and farmers --- will all fall into the proletariat ..."<sup>69</sup> Besides, Marx also men-

tioned in Communist Manifesto that in countries where modern civilization had developed there emerged a new petty bourgeoisie which was wavering between the proletariat and the bourgeoisie and kept on getting reorganized as a supplement to the bourgeois society. Besides, Marx also mentioned in Communist Manifesto that in countries where modern civilization had developed there emerged a new petty bourgeoisie which was wavering between the proletariat and the bourgeoisie and kept on getting reorganized as a supplement to the bourgeois society.<sup>70</sup> Here the new petty bourgeoisie are similar or close to the lower strata of the middle class. Researchers of social sciences today usually refer to them as "old-line middle strata."

At the end of the 19th century and in the early 20th century, along with the capitalist transition from free competition to monopoly, there emerged massive concentration of capital, with many small enterprises being replaced by large monopoly organizations. Rising in substitution of them were all kinds of stock companies. Along with the emergence of stock companies and the spread of equities, enterprise management power shifted quickly from the hands of the owners in the early period to the hands of a white collar group engaged in administrative management, sales and finances and public relations; hence, the separation of capital

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67 *Selected Works of Marx and Engels*, vol.1, p.261-262, People's Publishing House, Beijing 1972.

68 *Selected Works of Marx and Engels*, vol.1, p.251, People's Publishing House, Beijing 1972.

69 *Selected Works of Marx and Engels*, vol.1, p.259, People's Publishing House, Beijing 1972.

70 *Selected Works of Marx and Engels*, vol.1, p.276-277, People's Publishing House, Beijing 1972.

ownership from capital management.<sup>71</sup>

On the other hand, the development of the modern state machine and the ramification and expansion of its functions has brought about a large number of civil servants. These two major aspects brought about a large number of white-collar managers. The researchers of social sciences today usually refer to these people as "a new middle stratum," universally approving or identifying their special features as follows: (1) concentrating on brain work; (2) possessing a high educational record and having receive professional training; (3) living off on wages or salaries; (4) directly controlling the labor process to varying degrees and having some say and influence on social public affairs; (5) taking a moderate, conservative political attitude, pursuing after democracy and equality and exerting some social ideological influence in one way or another; (6) modeling after the elite society in ling style and behavior culture, being particular about style and official ranking; (7) stressing self-achievement and self-fulfillment in value concept; and (8) owning private property, leisure hours and consumption capacity for a decent life such as private car, private housing, making tourism and holidays with family members, etc.), the core features being non-ownership of the means of production, but more reliance on "organizational capital" (power of management) and

"cultural capital" (professional skills) for acquiring social status.<sup>72</sup>

In his *White Collar: the US Middle Class*, US sociologist C. Wright Mills made an overall analysis of the special and different features of both the new and old middle class. Most old-line middle class elements owned their own property while most new middle class do not have any property under their independent management; they work as senior employees for those with big capital. So, financially, they are in the same position as other ordinary laborers, but in terms of occupational incomes, they are more or less "in the middle."<sup>73</sup> The old-line middle class were engaged in certain physical labor, but the new middle class are usually engaged in brain work and usually very professional and technical, which is the capital for the class to gain professional reputation.

Some scholars who oppose the Marxist class theory hold that class polarization did not occur in the capitalist society as Marx predicted. There emerged a massive middle class who was not only a part of the "gross capital" but also a part of "gross labor" owning no means of production, but posing as managers in a contradictory class status. " In China today, increased frequency of social mobility has promoted millions of industrial workers to white collars in the service trade within the period of one generation, making structural class

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71 Gerhar E. Lenski: *Power and Privileges: Theory of Social Stratifications* p. 361 -362, Zhejiang People's Publishing House, Hangzhou 1988.

72 Edited by Lu Xueyi: *Social Mobility in Contemporary China* p. 266 - 267, Social Sciences Literature Press, Beijing 2004.

73 (US) C. Wright Mills: *White Collars: US Middle Class*, p.93, Zhejiang People's Publishing House, 1987.

analysis no longer a suitable tool of analysis. As a matter of fact according to Marxists, this approach precisely recognizes the capital-labor contradiction; the only difference is that the contradiction is being displayed as a continuous spectrum. The PE and hired laborers are precisely placed at the two ends of the continuous spectrum with one end occupied by private capital and the other by labor force. The bilateral ties are a manifestation of the radical contradiction in the continuous spectrum. In analyzing the two ends, class analysis is the most convincing method that can best grasp the essence. Viewed from a global angle, manufacturing and other labor-intensive industries have shifted from core countries to marginal and semi-marginal countries. With the reduction of industrial workers in the core countries, there will be a continuous pooling and increase of industrial workers in marginal countries. In the core countries there will possibly appear an olive-shaped two-small-end social structure with many "white collars" occupying the majority in the middle. But in the marginal countries the social structure will remain pyramid-shaped or onion bulb-shaped. Marx made an analysis of the 19th century Britain which played the role of a "world factory" where manufacturing industries occupied a leading position and industrial workers massively gathered featuring distinctive relations of exploitation between the enterprise owner and the hired laborer. It is noteworthy that in these core countries today, the numerous "white collars" have been in-

creasingly reduced to the status of labor hands similar to that of industrial workers due to the use of more equipment and facilities. Therefore some studies hold that these countries are really confronted with social "polarization."

The Chinese translations of the English term "middle class" and the German term "Mittelklasse" are very confusing: ranging from zhongchanjieji 中产阶级, zhongjianjieji 中间阶级, zhongjiandengji 中间等级, zhongjianjiecen 中间阶层, zhongdengjieji 中等阶级, zhongdengjiecen 中等阶层 to zhongdengshouruzhequnti 中等收入者群体. Of all these translations, 中产阶级 is the most inaccurate, because "middle" originally means "in the middle," "medium," "in the middle part," "in between," and "located in the middle."<sup>74</sup> The Chinese version zhongchan 中产 actually injects something extra into the term: The Chinese character chan which means "property." It is precisely this character that causes confusion as it has completely different implications in different academic and political theories. In the eyes of some academic schools, "assets" are property including means of subsistence as well as means of production that are not necessary to branch out in a very refined manner. But from the Marxist theory of surplus value, means of production and means of subsistence are two different things. "Means of production" are material conditions for production including tools and labor targets. The combination of labor with means

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74 Refer to *Concise Chinese-English Dictionary*, *Modern Comprehensive Chinese-English Dictionary*, and *Modern Chinese-English Dictionary*



of production creates wealth. The capital-owners possess means of production while the laborers don't, thus capitalists occupy surplus values and this is the very essence of the capitalist mode of production. On the other hand, "means of subsistence" are goods for human consumption such as clothing, food, housing and traveling. These are necessary conditions for laborers' self survival and reproduction of labor force. Workers have to use their wages to buy bread for food, clothes to wear, and even to buy a dwelling to live in, but all these are all conditions for survival and cannot produce anything for them. This is why Marxism does not discuss in general terms whether there is "property" or not or in terms of scanty or large amount of property, but first of all makes clear whether it is means of production or means of subsistence. In the Marxist concept, the *chan* 产 in *zichan* 资产阶级 (bourgeoisie) and *wuchan* 无产阶级 (proletariat) means very clearly means of production. Therefore Marxists never endorsed the ambiguous term "中产阶级".

Mao Zedong used the "中产阶级" concept under particular historical conditions in the early days after the establishment of the Party. In 1926 in an article entitled "Analysis of the Social Classes in Chinese Society," he pointed out, "The middle class 中产阶级 represented the Chinese urban and rural capitalist relations of production. The middle class 中产阶级 mainly refers to the national bourgeoisie adopting a contradictory attitude toward the Chinese revolution...They are bound to break up very quickly and are left without any room for 'in-

dependence' either heading for the left into the revolutionaries or for the right into the counter-revolutionaries."<sup>75</sup> Here both 中产阶级 and 中间阶级 mainly refer to the national bourgeoisie, while the former emphasizes its economic and political status in between the "big bourgeoisie" and the "proletariat." And the latter 中间阶级 pinpoints their political attitude towards the revolution. In subsequent works and CPC documents, Mao Zedong used the more accurate concepts of "bourgeoisie" and "national bourgeoisie."

Even if we use the concept of middle class once used by Mao Zedong, we cannot mechanically apply the term to the PE today either by analogizing them as the national bourgeoisie. They are identical in that they own means of production and are related to hired laborers, but they are different in that in the China of today, there has not been formed a big bourgeoisie or a bureaucratic bourgeoisie after all as was the case before the birth of New China. Therefore in the relationship of social production and political structure as a whole, 中等资产 and 中间位置 simply do not exist. There are also essential differences between the PE of today and the "new" and "old" middle class in Western societies. PE own means of production and the surplus value of workers. On this most essential point, they are different from the "new middle class;" hence, they are not a new middle class." On the point of owning productive "property" they do somewhat resemble the "old middle class." But the "old middle class" was called the middle class be-

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75 Selected Works of Mao Zedong Vol.1, p.4-5, People's Publishing House, Beijing 1968.

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cause on top of them there was a much richer bourgeoisie that reaped staggering profits overnight and replaced the feudal nobility. Their status may continue to decline under bourgeois oppression. On the other hand, the PE that have appeared in the Chinese transitional society are on the rise. If analogy is to be applied, they are more similar to the bourgeoisie in those days.