

Research on the Relationship Between Chinese Private Entrepreneurs and Democratization

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Abstract: While the rise of democracy has been attributed to various factors, including the emergence of a capitalist class. This article adopts a theoretical analysis method to delve into the role of private entrepreneurs in China as a potential catalyst for democratization. Drawing on Barrington Moore's theory of "no bourgeoisie, no democracy" and Samuel Huntington's analysis of democratization movements, the paper explores the dynamics between private entrepreneurs and the Chinese Communist Party (CCP) and analyzes the identity and interests of private entrepreneurs. The study reveals that private entrepreneurs in China maintain close informal connections and share political interests with state officials, indicating an interdependent relationship rather than an antagonistic one. Additionally, the lack of a unified political front and diverging economic interests among private entrepreneurs undermines the potential for class formation and collective action towards democratization. The paper also highlights the integration and cooperation between the CCP and private business owners, dispelling assumptions of discontent and hostility between the two groups. Chinese private entrepreneurs are generally satisfied with the CCP's economic policies, with their primary concern being market competition rather than state policies. This research contributes to a nuanced understanding of the complex dynamics between private entrepreneurs and the CCP in the context of democratization in China.

Keywords: democratization, democracy, bourgeoisie, market economy

1. Introduction

The rise of democracy can be attributed to a wide variety of factors, such as foreign intervention, changes in elite politics, and most notably, the structural change in the state's economy. The rise of an autonomous capitalist class is the precursor of democratization---or, as Barrington Moore aptly concludes, "no bourgeoisie, no democracy"—of which history offers no shortage of precedents. Samuel Huntington's analysis of the recent democratization movements demonstrates that the collapse of authoritarian regimes almost always stems from capitalists' collective effort to maintain and expand their own economic interests. Additionally, ever since the dissolution of the Soviet Union, the global political atmosphere upholds capitalist democracy as the default regime of choice, where economic progress arrives as the byproduct of political liberalism agenda [1].

Since the economic reform in 1979, China's economic model has transitioned from a redistributive to a market economy, accompanied by the rising influence of private entrepreneurs. As of 2018, there were approximately 40 million private enterprises in China, accounting for over 60% of the state's

gross domestic products. In 2018 alone, 18,400 enterprises were registered per day, 90% of which belong to the private sector [2]. Chinese private entrepreneurs have the potential to play a role in democratization, as some theories suggest that they could emerge as a cohesive force known as the "bourgeoisie." This paper provides a theoretical analysis of this prediction from two perspectives. First, private entrepreneurs in China share similar political interests and close informal connections (guanxi) with state officials. Accordingly, the dynamic between private entrepreneurs and the CCP is interdependent rather than antagonistic. Second, private entrepreneurs lack a common identity and definition of interest, both of which are prerequisites to class formation. Consequently, categorizing Chinese private entrepreneurs as a cohesive and unified class, capable of collectively challenging the CCP, may be premature and unfounded.

2. Underlying Logic Behind the Democratization Hypothesis

To explore the potential impact of private entrepreneurs on democratization, it is crucial to delve into the underlying logic of the phrase "no bourgeoisie, no democracy." The structural theory of democratization derives from the Marxist theory of class formation, where a group of individuals with the "public consciousness" of their shared economic interests will be motivated to pursue collective action to advance those interests [3]. Marx maintains that the accumulation of capital from liberated economic exchanges is conducive to facilitating class formation. Building upon Marxist theory, Barrington Moore posited that the bourgeoisie, representing the class of private entrepreneurs, would actively seek to extend its political influence to safeguard its economic interests. Moore contended that an authoritarian state's control over the economy contradicts the principles of laissez-faire economics. As a result, the bourgeoisie would ultimately resist such authoritarian rule and advocate for a democratic agenda rooted in the principle of "no taxes without representation [4]." Moore established a causal link between capitalist class formation and democratization through the bourgeois revolutions in England, France, and the U.S, where entrepreneurs overthrew non-democratic regimes to protect their economic interests. In China, Deng Xiaoping's 1979 economic reform policy led to the rise of influential private entrepreneurs. Despite private enterprises becoming major GDP contributors, this study suggests that Chinese private entrepreneurs are unlikely to spur democratization due to their interdependence with the state for mutual benefit and their diverse interests and identities, hindering capitalist class formation.

3. Dynamics Between Private Entrepreneurs and the Chinese Communist Party

Contrary to popular belief, the relationship between the private sector and CCP officials is not characterized by the discontent and hostility evident in previous bourgeois democratic revolutions. Chinese "capitalists" tend to cope with, rather than coalesce against, authoritarian rule. Specifically, these "coping mechanisms" entail integration and cooperation. In either case, the private sector's interests are inextricably linked to those of the state or Chinese bureaucrats. These shared interests thereby invalidate the fundamental terms behind the capitalist democratization syllogism---that a non-democratic polity is antithetical to capitalist interests.

3.1. The Integration Between Communist Officials and Private Business Owners

This section will delve into the intricate process of integrating Communist Party officials and private business owners. Specifically, this pattern of interaction applies to "red capitalists"--- private entrepreneurs with CCP memberships, deputy positions in People's Congress, former state employment background, or family ties with CCP leaders or People's Congress deputies [6]. Red capitalists occupy "a large portion, if not a majority, of the bourgeoisie" [5]. Ideologically, the ideological orientation of red capitalists, who are either members of CCP or have close ties with the

Party, is typically aligned with the prevailing political system. Red capitalists, while supporting market liberalization and Deng Xiaoping's "opening up" policy, generally do not advocate for a regime shift towards democracy [6]. Additionally, political influence is generally positively correlated with economic gains. The special political connections to CCP members afford Red Capitalists privileged business information and backdoor dealing opportunities. Political sociologist Andrew G. Walder notes that market transition (in China's case, Deng's Gaige Kaifang) disproportionately favors the political elites, who can utilize their power to privatize previously state-owned assets, thus accumulating an enormous amount of wealth [7]. The premise behind this pattern is, of course, that the political regime does not undergo drastic changes---otherwise, these red capitalists would lose their political power and the basis upon which to extend their economic gain. Red capitalists "...have prospered from the commercial privileges deriving from political lineage [and] are essentially a parasitic appendage of unrestricted political power...and a taken-for-granted personal stake in preventing regime change [5]." Whether perceived as an abuse of power or a practical approach to facilitate transactions, the political influence and close connection with the Chinese Communist Party provide red capitalists with enormous potential to expand their interests.

3.2. Cooperation and Interdependence Between the Private Sector and the CCP

The relationship between private businessmen and the state in China can be described as "symbiotic clientelism." In the context of Chinese private entrepreneurs, especially those who are at a disadvantage compared to their red-capitalist counterparts, establishing close connections or *guanxi* with Chinese Communist Party (CCP) officials becomes a crucial strategy to maximize their economic interests. Unlike red capitalists, who directly benefit from their affiliations with the CCP, private entrepreneurs often seek bureaucratic protection and privilege from cadres to facilitate their business transactions. In this paradigm, private entrepreneurs recognize that cultivating strong *guanxi* with party officials can provide them with a range of advantages. In return, private entrepreneurs reciprocate by contributing to the government's objectives. This can be through various means, such as fulfilling tax obligations responsibly or actively sponsoring the government's public welfare programs [8].

Guanxi, which refers to a strong network of mutually beneficial relationships, plays a crucial role in China's business practices. Chinese business culture is highly relational, and the country's economic model relies heavily on the political network of entrepreneurs [9]. Economic activities in this network-oriented capitalism model depend on the *Guanxi* between private entrepreneurs and state officials. Private enterprises rely on privileged information or favorable policies granted by CCP officials to advance their economic interests [10].

The notion that Chinese entrepreneurs, with their accumulated capital and growing social influence, could independently push for democratization without relying heavily on *Guanxi* networks is a perspective held by some skeptics. However, studies show that symbiotic clientelism has permeated even the smallest enterprises and is deeply ingrained at all levels of local governments due to the cultural characteristics of *Guanxi*-based business protocols [11]. The reliance between Chinese private enterprises and the CCP is mutual. The Chinese Communist Party prioritizes economic development, and private entrepreneurs contribute significantly to the nation's GDP, accounting for over 60%. With the rise of economic protectionism worldwide, exemplified by the U.S.-China trade war, the CCP relies on private entrepreneurs to counter losses [12]. In response, President Xi Jinping called for major domestic banks to increase loans issued to private enterprises, emphasizing the CCP's dependence on private sector growth [13].

State officials also depend on the private sector's growth to fuel their political aspirations. The performance of local government officials is evaluated based on their region's conformity to the Five-Year Plan's benchmarks. Since private ventures are crucial for rapid economic growth, Chinese

officials actively seek the support of private entrepreneurs. Enacting favorable monetary and economic policies for private entrepreneurs benefits local government officials in two ways: by directly benefiting from engagements with private entrepreneurs through informal norms such as banquets and gift exchanges, and by facilitating local economic growth, which increases public and central government trust in their competence [14].

As China moves from a redistributive to a market economy, private entrepreneurs and state officials form a mutually beneficial dynamic. Private businesses cultivate relationships with officials for advantageous economic policies and market information, while the state leverages private enterprise growth for global economic enhancement. Officials also use private sector contributions to solidify their political power and gain informal benefits. This symbiosis deters both parties from significant status quo changes. Private businessmen, despite protecting and growing their interests, may not actively advocate for democratization, as it could disturb their stable operating environment. They may favor preserving a harmonious relationship with the state to safeguard their interests.

3.3. Analysis of the Identity and Benefits of Private Entrepreneurs in China

One imperative element for capitalist class formation is a shared definition of interest and identity. Chinese private entrepreneurs, however, have wide-ranging interests and identities, economically and politically alike. Consequently, it is inconceivable for Chinese “capitalists” to form a unified class and pursue collective action against the Communist regime.

Empirical studies and surveys have shown that the political views of red capitalists are often closely aligned with those of members of the CCP government. Red capitalists are essentially capitalists who maintain close ties with the CCP [6]. The political-economic identity of red capitalists, therefore, aligns with that of the Chinese Communist Party. Red capitalists are not seeking “an autonomous status so they can challenge the state” as structural theories of capitalist democratization suggest. Instead, they seek “...to be embedded within the state” among other CCP members [6]. It makes sense for red capitalists to uphold conservative political values since their political influence is their single most useful leverage in conducting business activities and accumulating capital. Scholars have noted that the commercialization of political power in creating economic opportunities and monetary returns further strengthens the symbiotic relationship between the state and private entrepreneurs, thereby cementing red capitalists’ loyalty to the conservative CCP agendas [8]. The identity of red capitalists differs from the typical market-economy bourgeoisie insofar as red capitalists are reluctant to pursue market liberalization at the cost of regime change. With a considerable portion of the private entrepreneur population endorsing the communist identity rather than liberalism ideals, Chinese capitalists are unable to achieve a unified identity pivoted around political liberalism, thus rebutting the potential of a capitalist democratic revolution.

Political sociologist Chen An classified Chinese private business owners into two categories: the parasitic bourgeoisie and self-made bourgeoisie. According to Chen, the parasitic bourgeoisie does not support liberal ideals such as liberty and democracy [5]. Entrepreneurs in China adopt the Western “bourgeois” mindset for economic liberation, not political reform. Chen's study indicates that while these capitalists might seemingly advocate for market competition policies, they withdraw from liberalization agendas once securing sufficient political influence. This behavior relates to the direct link between political power and economic resources. Capitalists, primarily driven by economic gains, initially supported economic liberalization to increase business opportunities. Yet, they soon realized that economic reforms were slow to yield profits, while leveraging political resources for economic returns led to immediate gains, especially in China’s guanxi-influenced business environment. Chen labels these private enterprise owners as “parasitic,” as they rely on the CCP's political resources to boost their business performance.

Self-made capitalists, on the other hand, have a much higher propensity to support liberalization and democratization [5]. Self-made entrepreneurs in China lack the political resources of parasitic bourgeoisie and red capitalists, which places them at a disadvantage in the guanxi-based business network. Their efforts to democratize aim to diminish parasitic capitalists' privilege and combat state control of resources and tax policies. Given the conflict of interests, merging these two groups into a class with a unified liberalist vision is highly unlikely.

The structural theory of capitalist democratization argues that authoritarian regimes threaten capitalists' interests, causing revolutions. However, most Chinese private entrepreneurs approve of the CCP's economic policies and understand shared threats to the Chinese market. This means that the crucial component of social revolution – a class-regime conflict of interest – is currently missing in China. Surveys show that despite sharing some broad bourgeois interests, Chinese private enterprise owners hold varied views of their challenges.

Xi Jinping is known for prioritizing anti-corruption, implementing the “Sky Net” operation that has recovered over \$519 million ill-acquired gains in 2018 alone, along with capturing more than 300 CCP members and over 50 state officials above the provincial level [15]. After lowering the threshold for private enterprise financing, Xi announced that the government would invoke “substantial tax cuts”, “reduce value-added taxation”, and “tax exemption for small businesses and technology startups” to facilitate the growth of the private sector [16]. The most pressing policy areas for entrepreneurs, therefore, are all adequately addressed by the CCP leadership.

At their core, private enterprise owners value their market performance above all other factors. As Dickinson points out, entrepreneurs are more focused on tangible, concrete concerns over business operations and market competition; they generally do not anticipate or support a democratic transition. Not only does democratization take time to implement, but democracy itself cannot sufficiently reduce market competition, an economic issue independent of the nation's polity [17].

4. Discussion

Admittedly, the theory of “no bourgeoisie, no democracy” has a certain degree of validity based on historical evidence, particularly regarding the pattern of the recent third wave of democratization since the 1980s. Nevertheless, the necessary conditions to push for capitalist democratization are not met in China's rising market economy.

The above analysis into the current dynamic between the private economy and the CCP regime demonstrates that private entrepreneurs are closely integrated into the CCP system, as political elites capitalize upon their resources and connections to gain an enormous economic advantage. Entrepreneurs who are not integrated into the CCP nevertheless have to establish guanxi with state officials in exchange for business opportunities and favorable economic policies. Meanwhile, the state officials also depend on the contribution from the private sector to fortify their political assets, and the state itself needs the growth of private enterprises to level against global economic powers. This interdependent, mutually beneficial relationship between private enterprise owners and the CCP government rejects the essential element within Moore's theory---that the interests of bourgeoisie are threatened by the policies of a non-democratic regime.

More importantly, Chinese private entrepreneurs cannot form a unified class because of their vastly different identities and interests. Chinese private entrepreneurs' main concern is not against the state but against each other; their primary objective is not altering state policies but gaining competitive advantage in the market economy. Even regarding policy concerns, their top interests align with those of the CCP, and their minor interests are widely dispersed. Therefore, Chinese “capitalists” do not have fundamental resentment against the CCP's policies or a clear, unified definition of interest; consequently, the structural theory of capitalist democratic transformation is not applicable to Chinese private entrepreneurs. Politically, the majority of entrepreneurs prefers to

be embedded within the state to develop their guanxi-based network and advance their interests. These entrepreneurs' political values generally correspond with the CCP agenda. While entrepreneurs without the privilege of political connections have the motivation to push for democratization, they are in direct conflict of interests with their politically resourceful counterparts, making it extremely challenging for private business owners to form a unified political front. Economically, private entrepreneurs' main concerns lie in market competition rather than state policies. At the top of their priority list is outperforming competitors rather than challenging the state. Even if we assume that these entrepreneurs have set their differences aside, they only have a few common interest areas regarding state policies, all of which are very broad and have already been repeatedly addressed by the CCP with satisfactory improvement. Their specific interests, on the other hand, are wide-ranging and inconsistent with no clear common ground. Therefore, it is premature to assume Chinese private entrepreneurs can form a capitalist class that takes collective action toward democratization, both at this stage and in the near future.

5. Conclusion

In conclusion, this paper has explored the role of private entrepreneurs in China as potential drivers of democratization. By examining Barrington Moore's theory of "no bourgeoisie, no democracy" and Samuel Huntington's analysis of democratization movements, the study challenges the notion that Chinese private entrepreneurs possess the necessary conditions to trigger democratization.

The research findings indicate that private entrepreneurs in China have close informal connections and shared political interests with state officials, suggesting an interdependent relationship rather than an antagonistic one. Moreover, the lack of a common identity and definition of interest among private entrepreneurs undermines the possibility of class formation and collective action. The study also highlights the integration and cooperation between the CCP and private business owners, refuting the assumption of discontent and hostility between these two groups. Additionally, it reveals that Chinese private entrepreneurs are generally satisfied with the CCP's economic policies, with their primary concerns revolving around market competition rather than state policies.

Based on these findings, the paper argues that Chinese private entrepreneurs are unlikely to act as catalysts for democratization due to their interdependence with the CCP, the absence of a unified class identity, and their primary focus on market competition. The necessary conditions for capitalist democratic transformation, as proposed by structural theories, are not present in China's current economic and political landscape. This analysis contributes to the understanding of the complex dynamics between private entrepreneurs and the state in China and challenges the prevailing assumptions regarding their potential role in democratization. Further research could explore the evolving nature of the relationship between private entrepreneurs and the CCP, as well as the potential future implications for democratization in China.

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