

“IS CHINA GOING CAPITALIST?” THE DEBATE OVER ADMITTING PRIVATE ENTREPRENEURS
TO MEMBERSHIP IN THE CHINESE COMMUNIST PARTY

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On July 1, 2001, Chinese leader Jiang Zemin delivered a major address to celebrate the eightieth anniversary of the founding of the Chinese Communist Party.¹ Although Jiang’s speech dealt with many issues facing the party, he particularly focused on its role during the period of socialism with Chinese characteristics. He emphasized the importance of economic development for China, and the lengthy historical process necessary to reach socialism. During this period, China would retain a so-called socialist market economy, and as this economy develops, stated Jiang, new social strata will play a key role.

“Entrepreneurs and technical personnel employed by scientific and technical enterprises of the non-public sector, managerial and technical staff employed by foreign-funded enterprises, the self-employed, private entrepreneurs . . . have contributed to the development of productive forces . . . in a socialist society through honest labor. . . They work together with workers, farmers, intellectuals, cadres, and the officers and men of the PLA. They are working for building socialism with Chinese characteristics.” Therefore, he stated, these private entrepreneurs should be eligible for membership in the Chinese Communist Party itself, the very vanguard of the working masses.² Indeed all who are developing socialism with Chinese characteristics should be included in the party, stated Jiang. If they follow the party line and guiding principles, meet membership conditions and criteria, then they are eligible. Broadening the party membership will strengthen its influence in society and its cohesion, he concluded.

Could China’s wealthy private businessmen and women who ride around in Rolls-Royces and shop at exclusive boutiques on Shanghai’s Huaihai Road really be communists? Jiang cautioned not to hold their wealth against them. “With economic development,” he stated, “our people will live a better life and their personal property will increase gradually. In view of this, it is not advisable to judge a person’s political integrity simply by whether one owns property and how much property he or she owns.”³ Such a view could not have been more at odds with Mao’s legacy.

In opening the Communist Party of China to membership by individuals who were private capitalists, Jiang seemed to be taking the party in a new direction. Could socialism with Chinese characteristics really turn out to be thinly disguised capitalism? Can a communist party, vanguard of the proletariat, really include capitalists as full-fledged members? In his talk, Jiang seemed to suggest a broader role for the new communist party of today’s China. “Although our party is primarily the vanguard of the

¹ For the full text of Jiang Zemin’s speech see *Renmin ribao* (People’s Daily), July 2, 2001, 1-3. The official English version appeared in *Beijing Review*, documents supplement, July 12, 2001, and July 19, 2001.

² *Beijing Review*, July 19, 2001, documents supplement, v.

³ *Ibid.*

Chinese working class,” declared Jiang, “at the same time we are the vanguard of the Chinese people (*renmin*) and Chinese race (*minzu*).”⁴

Jiang’s speech provoked substantial reaction in the Western media. The New York Times headline read: “China’s Leader Urges Opening Communist Party to Capitalists.” The paper reported on Jiang’s July 1 speech, noting that he declared “that private business owners and other members of China’s increasingly diverse society ought to be allowed to join.” This decision could have far reaching implications, the Times concluded. “Allowing private businessmen into the party could fundamentally alter the organization’s character.”⁵ Reaction by academics, although slower in emerging, was equally strong. Joseph Fewsmith commented that the July 1 speech “marked the most systematic rewriting of CCP ideology, perhaps ever.”⁶

Jiang’s speech would certainly have shocked Chairman Mao who was unambiguous in his condemnation of capitalists and the even hints of the bourgeoisie lifestyle. To get rich was certainly not glorious in the eyes of the late Chairman. When Mao died in 1976 China’s factories, banks, and retail outlets were all owned by the government and collectives. China’s foreign trade was miniscule, its currency non-convertible, and foreign investment almost non-existent. Although there had been some easing after the death of Lin Biao, all market activity, even sales in small rural markets, was condemned as capitalist. The remarkable transformation of China’s economy in the three decades following Mao’s death is well known. During this process of change, China has opened its doors to foreign investment and trade and created vast sectors for private entrepreneurs in its domestic economy.

In the eyes of most observers, the Communist leadership seems to have made an unspoken agreement with the people of China following the Tian’anmen Incident of 1989. The Communist Party would deliver continuing economic miracles, but the people must accept one-party rule. This “bargain,” informally sealed after Deng Xiaoping’s famous trip south, has held remarkably well. China’s economy has experienced sustained economic growth and living standards for most Chinese have continued to rise. Yet this has also placed the government under great pressure to continue the economic boom.

As China’s economy opened up in the 1980s and 1990s, some of the most dynamic sectors have been the collective and private enterprises; the most sluggish have been in state-owned enterprises (SOEs). Indeed, in the late 1990s, the accumulated debt of the SOEs threatened to take down China’s banking system. Unsustainable loans to state enterprises, politically mandated, sucked capital away from the more dynamic private and collective sectors. By the late 1990s, Nicholas Lardy noted, “The central

⁴ *Renmin ribao*, July 2, 2001, 1.

⁵ *New York Times*, July 2, 2001, A-9.

⁶ Joseph Fewsmith, “The Sixteenth National Party Congress: The Succession that Didn’t Happen,” *The China Quarterly* (March 2003, no. 173), 2.

Jiang Zemin’s speech also contained elaboration of his theories referred to as the “Three Represents” (*sange daibiao*). For a discussion see Liao Liangchu, “Lun Jiang Zemin `sange daibiao’ zhongyao sixiang tichu de lilun he xianshi yiju” (On the theoretical and practical foundations of Jiang Zemin’s `Three Represents’), *Dangdai Zhongguo shi yanjiu* (Contemporary China Historical Studies), vol. 9, no. 1 (January 2002), 18-23.

precondition exists for a crisis, a largely insolvent banking system. . . . The four largest state-owned banks, which at year-end 1995 accounted for three-fifths of the assets of all financial institutions in China [had] nonperforming loans, as a share of total loans . . . [at] 25% at year-end 1997.”⁷ This enormous debt load, almost entirely from the SOE sector, threatened the collapse of the economy and the opening of the door to a renewed political crisis. Beijing concluded that only continued reform, the discipline of market forces, and opening China’s economy through the World Trade Organization, could gradually curb the SOEs’ drain on the economy.

At the same time, those private businessmen who were successful became disenchanted with government policy. Many felt that the state provided few services; banking and stock markets operated for the benefit of the state enterprises and not the private sector. One of China’s most successful businessmen was Chen Rong, a former worker who became a multi-millionaire by manufacturing automated bowling equipment. As Chinese had more money and leisure time, bowling became increasingly popular. Imported automated bowling equipment replaced the hand set system. Chen reverse engineered the automated equipment supplied by AMF of the United States and began manufacturing this in China. By the late 1990s, Chen captured nearly 60% of the domestic market in China and was said to ride around Shanghai in a Rolls-Royce.⁸ Yet Chen felt that the government gave him little in return. He was quoted in a New York Times article in July 2000 entitled “Private Business in China: A Tough, Tortuous Road,” as saying “The government doesn’t want to develop the private sector, they just want to use it to help the state-owned economy.”⁹

So while the new breed of private entrepreneur was playing a major role in China’s dynamic economic growth, many were unhappy with their treatment by the government. With the opening of the economy, it became easier for businessmen to smuggle money out of the People’s Republic to invest in Hong Kong or overseas. It was within this context—the need to gain the confidence of the private entrepreneurs and to maintain the growth of the economy—that Jiang Zemin made his decision on admitting capitalists to the party.

Jiang’s move also gave to wealthy entrepreneurs a cloak of respectability so that they could not be squeezed by lower level politicians. One of the most difficult problems for these entrepreneurs in the 1980s and 1990s was that the shifting “rules of the game” made their accumulated wealth a tempting target. As long as the Maoist rhetoric was available, local officials could apply the “squeeze.” As David L. Want has noted, “Economic reform has given officials a whole new range of power in the area of regulation of private business in such matters as business licenses and taxation. . . . The judicial system is perceived as corrupt, and regulatory agencies administer laws and regulations haphazardly.”¹⁰ Small operators often try to minimize contact with

⁷ Nicholas R. Lardy, “Sources of Macroeconomic Instability in China,” in David Shambaugh, ed. *Is China Unstable?* (Armonk, N. Y.: M.E. Sharpe, 2000), 59.

⁸ *Far Eastern Economic Review*, September 23, 1999, 46-47.

⁹ *The New York Times*, July 12, 2000, A-1; C-21.

¹⁰ David L. Wank, “Cigarettes and Domination in Chinese Business Networks: Institutional Change in Market Transition,” in Deborah S. David,

government, Wank notes. “They perceive the demands by officials for cash pay-offs regarding taxes, fines, and licenses as arbitrary and predatory,” he suggests. “By lessening interaction with officials, they seek to reduce bureaucratic interference in their enterprises.”¹¹

Beijing officials thus had to decide. Should private entrepreneurs be given political status? Were they to be regarded as productive members of society who contributed to China’s economic development or were they ultimately those who exploited the working masses? As long as the latter rhetoric lived, the entrepreneurs would not be secure in their wealth or persons.

The entire reform program since Deng Xiaoping’s return to power after Mao’s death, had deeply stretched the fabric of Marxist-Leninist ideology. Phrases such as “socialism with Chinese characteristics” were used to mask the massive reversal of the policies of Mao Zedong. Yet the core idea that the ultimate goal was a socialist system in which private capital would disappear was still mandated by Marx’s concept of economic exploitation. To go one step further—to suggest that capitalists were productive citizens who could be part of and be represented by the communist party—was to challenge the foundation of Marxism-Leninism. Jiang’s move, long anticipated by many, was thus resisted by more traditional Marxist thinkers within the party.

A Beijing journal called Zhenli de zhuiqiu (The search for truth) had been routinely publishing articles on the question, almost uniformly condemning the concept. Zheng Tianxiang, former head of China’s highest court, wrote in the June 2001 issue:¹²

a new capitalist class has already been produced in China. In the past several years the privately managed economy (ziying jingji) has developed very rapidly. The central government has decreed establishment of a socialist market economy but some theoreticians have dropped the term “socialist” and only advocate a market economy. They want China’s system to resemble America’s.

What really disturbed Zheng was the proposal that capitalists be permitted to join the party itself. “And now, within the party, incredibly, there are those who advocate admitting capitalists to the communist party,” lamented Zheng. “*If capitalists enter the party, can the communist party still be in the vanguard of the working class? Will the party not change its nature? Should be even discuss this further?*” (Emphasis in original).¹³ Zheng’s comments clearly demonstrated that the concept of capitalists in the party deeply disturbed more traditional members of the communist party.

ed., *The Consumer Revolution in Urban China* (Berkeley: University of California Press, 2000), 278.

¹¹ David Wank, “Private Business, Bureaucracy and Political Alliance in a Chinese City,” *The Australian Journal of Chinese Affairs* (January 1995, no. 33), 67.

¹² Zheng Tianxiang, “Guangrong weida de licheng yu women mianqian de yanzhong wenti” (Our glorious, great past and the serious question before us at present), Zhenli de zhuiqiu (2001, no. 6), 4.

¹³ Ibid.

Another writer in the journal, Lu Zhichao, cited Mao Zedong's 1939 essay which was written on the eighteenth anniversary of the founding of the party. Mao had stated that the party was a workers' party and that its central task was to establish socialism.¹⁴ And yet, in Lu's view, China seemed moving toward capitalism in 2001:¹⁵

In the last twenty years, according to published but incomplete reports, our country's private enterprises have already reached more than 1.7 million, involving 4 million people. Compared to 1956 when 160,000 capitalists were in private business at the time of reorganization, this is more than twenty times as much. The registered capital of these firms is . . . 150 times as much as 1956.

These figures, Lu noted, were incomplete for they did not include village and township enterprises which were being converted to private use. Clearly, in his view and that of many orthodox Marxists, China was on the revisionist path.

These writers obviously had deep reservations about whether "market socialism" was really socialism at all. Blocking capitalists from party membership was for many of these traditional communists the essential "fire-wall" which had to be maintained. Lin Yanzhi, a key official in Jilin province wrote, "the bottom line is that the private economy cannot surpass the public economy. . . . The communist party cannot admit capitalists to the party, cannot become the representative of the capitalist class."¹⁶

Xiang Qiyuan of the Economics Institute of the Chinese Academy of Social Sciences, writing in January 2001, actually quotes a Jiang Zemin speech of August 21, 1989, in which Jiang explicitly rejected the idea of capitalists joining the party. "I approve of the view that private entrepreneurs cannot enter the party," he quoted Jiang from 1989. "If we let those . . . who depend on exploiting the people enter the party, then what kind of party will be become?"¹⁷ Xiang goes on to list several arguments against letting capitalists join. Essentially he feels that the move would transform the party's nature as the vanguard of the proletariat and seriously undermine the prestige of the party among the working masses.

Yet the actual evidence would suggest that in fact the "fire wall" keeping capitalists out of the party has long been breached. Although private entrepreneurs as such were not normally admitted to party membership prior to 2001, many individuals who had been party members had subsequently moved into private business. Many collective enterprises, including village and township enterprises, had gone private, often

¹⁴ Lu Zhichao, "Dang de jianshe yu dang tong zichan jieji de fuza guanlian" (The establishment of the party and the party's complicated relationship with the capitalist class), *Zhenli de zhuiqiu* (2001, no. 6), 12-14.

¹⁵ Ibid.

¹⁶ Lin Yanzhi, "Gongchang dang yao lingdao he jiayu xin zichan jieji?" (Should the communist party lead and drive the new capitalist class?), *Zhenli de zhuiqiu* (2001, no. 5), 7.

¹⁷ Cited in Xiang Qiyuan, "Gongren jieji de zhengdang kaineng xishou ziben jia?" (How can the party of the proletariat take in capitalists?), *Zhenli de zhuiqiu* (2001, no. 1), 31-33.

under somewhat cloudy circumstances. Local party leaders were often able to garner control of collective resources for personal gain, becoming private businessmen as a result. State-owned enterprises sometimes spun off private firms, again under illegal conditions.

Moreover, many family members of prominent leaders who had often joined the party in early adulthood, then used their political connections to develop private business. As a consequence, among the party membership were actually many individuals operating in private business. Among the most prominent at the time of Jiang's speech was his own son, Jiang Mianheng. According to Bruce Gilley, the younger Jiang had become a key player in Shanghai business, chairing the city-owned investment firm Shanghai Alliance Investment, which led high technology investments in Shanghai, and serving on the board of China Netcom, which relied on him to ease its way through government regulatory agencies. Mianheng, who earned a doctorate in electrical engineering from Drexel University in Philadelphia, also served as the chief executive officer of Shanghai Simtek Industrials, a telecommunications company.¹⁸ In December 1999, Jiang Mianheng was whisked away to Beijing to become vice-president of the Chinese Academy of Sciences, a move many interpreted as an attempt by his father to curb his business dealings. Reports in June 2000, however, suggested that Mianheng remained active in business operations, putting together an alliance between Simtek, the Shanghai Alliance Investment, and Taiwan's Hung Jun Group to build a semiconductor plant in Shanghai with an initial investment of \$75 million. He also engineered a deal between Simtek and the Shanghai Chulan group which makes appliances and computer products.¹⁹

Nor was Jiang Mianheng the only such player. Simon Jiang, son of Qiao Shi, was involved with CyberCity Holdings and the software firm Zi Corporation. He developed plans for a major high technology business park in Shenzhen. Zhu Rongji's son Zhu Yunlai was a well connected investment banker in Beijing and his daughter Zhu Yanlai was connected with the Bank of China group in Hong Kong.²⁰ In this context which was well known among party insiders, the line between key political officials and private business activity had long been blurred, much to the dismay of ideological hardliners.

Li Qiang, one of the editors of *Zhenli de zhuiqiu*, noted the large increase in the number of private firms and workers. He stated that there were 1.5 million private firms in China in 1999, compared to only 91,000 a decade earlier. The number of people employed in private firms had risen to over twenty million. More importantly, the percentage of China's consumer goods produced by private firms had been increasingly rapidly, Li warned. In 1996 private firms had produced only 4.1 percent of Chinese consumer goods; but by 1999 this had swelled to 13.5 percent. The trend was clearly rapid growth in the private sector of the economy. But Li warned that these statistics significantly underestimated the role of private business since many enterprises do not

¹⁸ Bruce Gilley, *Tiger on the Brink: Jiang Zemin and China's New Elite* (Berkeley: University of California Press, 1998), 159-161; Gilley, "They're Back," *Far Eastern Economic Review*, February 3, 200, 1-15.

¹⁹ Gilley, *Tiger on the Brink*, 159-61; *Far Eastern Economic Review*, June 29, 200, 8; March 29, 2001, 8-9; see also Charles Bickers, "Latching on the Linux," *Far Eastern Economic Review*, August 31, 2000, 34.

²⁰ Gilley, "They're Back," 14-15; *Far Eastern Economic Review*, October 18, 2001, 34.

register, especially the individual enterprises (geti hu). Also many concerns registered as collectives but actually were private, referred to commonly as “wearing a red hat.”²¹

But Li also pointed out that many of these managers and owners of private businesses were originally party cadres who retained their party membership. He noted that a survey of directors of private enterprises in 1993 revealed that 13.1 percent were party members. This figure had risen to 17.1 percent in a 1995 survey, and 19.8 percent in 2000. Clearly many of these private enterprises were headed by party cadres who had moved into private business, perhaps taking the assets of collective or state-owned enterprises with them. Li argued that if these statistics were valid then the proportion of capitalists who were party members was actually much higher than the proportion of the proletariat or peasantry who were in the party—only five percent for those groups. In other words, capitalists were already better represented in the party than other groups, a trend which would only continue if they could officially join the party as capitalists.²²

The views of the ideological hardliners expressed in Zhenli de zhuiqiu represented a losing cause. Much as the Confucian scholars who clung to their beliefs in the last years of the Qing, these believers in Marxism, Leninism, and Mao Zedong thought have seen the Chinese Communist Party and China move in directions of which they do not approve. With China’s joining the World Trade Organization, its economy is now more open, more market dominated than at any time since the Communist Revolution. Beijing’s economic policies today could not be more different from the autarky advocated by Chairman Mao. Yet one aspect of the old communist party remains—democratic centralism with its attendant party discipline.

Once Jiang Zemin made his decision, he acted swiftly to curb the hardliners who had criticized the new policy. Zhenli de zhuiqiu was closed down in August 2001, after eleven years of publication.²³ Lin Yanzhi, deputy party chief in Jilin, was seen by many as being groomed to take over the party’s propaganda department. But Lin’s attacks on the idea of entrepreneurs as party members so angered Jiang loyalists that his career became stalled.²⁴ The content of party ideology might have changed, but the party’s insistence on discipline and the right of unchallenged rule had not.

So did this debate have any significance? Did the protests which appeared in a party journal of limited circulation have any impact? In fact, since the suppression of Zhenli de zhuiqiu China has continued to embrace global capitalism. Jiang Zemin’s retirement seems to have even speeded up the process as Beijing has moved to increase the security of private property in the People’s Republic and made China the largest recipient of foreign investment of any county on earth. The momentum towards a market-dominated economy seems unstoppable.

The debate in Zhenli de zhuiqiu reminds us, however, that these new developments are strongly counter to the fundamental principles of Marxism-Leninism-Maoism. As the hardliners pointed out, if the party “represents” the capitalists, then it can

²¹ Li Qiang, “Guanyu saying jingji de ruogan ziliao” (Several materials relating to the private economy), *Zhenli de zhuiqiu* (2001, no. 5), 17-27.

²² Ibid.

²³ Gilley, “Jiang’s Turn Tempts Fate,” *Far Eastern Economic Review*, August 30, 2001, 18-20.

²⁴ *Far Eastern Economic Review*, August 23, 2001, 8-9.

hardly be the party of the proletariat. The exploitation of one social class by another; the fundamental nature of class struggle; the dictatorship of the proletariat—none of these ideas make sense if the party is to include and represent capitalists. Jiang Zemin and his cohorts have fundamentally altered the nature of the party, divorcing it from the ideas of classical Marxism. Deng Xiaoping might have brought about policies that led to the change, but the ideology itself was altered by Jiang.

China has two generations who were trained in the intellectual traditions of Marxism-Leninism-Maoism. In their school training, they were indoctrinated in core concepts of class exploitation and class struggle. Perhaps most have willingly abandoned these ideas. For the true believers, however, there seems to be a definite awareness that the party has abandoned these principles. But does it matter? Most foreign observers have long proclaimed communism dead in China. The party rules through its claim to maintain stability, its appeals to nationalism, and its great success in developing the economy. Since the struggles of 1989 Beijing seems to have succeeded in using these to maintain its control.

Perhaps the empty core of Marxist thought will not be an issue. Yet it is perhaps useful to remember the similar process in Taiwan under the Guomindang (Nationalist Party). For most young people in the 1970s and 1980s in Taiwan, the official party ideology of Sanmin zhuyi (Three principles of the people) was irrelevant, an ideology force-fed them in public school. The dream of recovering the mainland was a fantasy. These ideas could not sustain the Guomindang hold on Taiwan. Can the current generation of young Chinese still take the classic works of Marxism-Leninism-Maoism seriously when they so contradict contemporary party doctrine?