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Business Groups: For or Against the Regime?

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Conventional modernization theory finds a link among economic growth, the emergence of a bourgeoisie or a middle class, and demands for democracy. Both Taiwan—over the decades from the 1950s through the 1980s—and China after 1980 experienced such growth; both also witnessed the appearance of a newly moneyed class in the wake of developmental change. But can we extrapolate from Taiwan's subsequent democratization that China's authoritarian polity will soon likewise succumb to similar pleas? My claim in this chapter is the following: the case of Taiwan does fit the theory, whereas the Chinese one, so far at any rate, does not. I focus specifically upon the political stances and roles of one particular segment of the middle class in these two societies, that is, the one involved in business.

In Taiwan, though the principal promoters of political transformation were intellectuals, there is evidence that owners of small- and medium-sized businesses stood behind and financed their efforts; in China, conversely, to date the research we have suggests that this is not likely to be the case.¹ A close look at these two cases, moreover, does not just distinguish between them but also offers refinements to the popular prognostication. To support these claims, I will point to the disparate sociopolitical histories and the cultural and economic factors that bear on these cases, all placed within the context of each regime's larger goals and its consequent treatment of the aspiring business sector in the two places (regime aims and behaviors). The comparison is a structured one, in that we have here divergent outcomes in two locales that, at least on the surface, had much in common in the past.

I will argue that the loyalties, allegiances, and grievances/resentments of businesspeople toward their governments can predict their stances toward regime change and democratization in their own polities and, further, that these affective commitments can be modeled as a function of the aims and behaviors of the two regimes, as these regime attributes have affected busi-

nesspeople. Thus, stated most simply, my guiding hypothesis is the following: The nature of the social connections (or alliances, or relations of co-optation) that members of a bourgeoisie have experienced with their regime—what is popularly termed in China as their *guanxi*—provides the most succinct and parsimonious explanation for businesspeople's role in the movement toward new forms of governance in China and Taiwan. The key factor in the opportunity for democratization to unfold in both places is capitalists' contacts. Which contact mattered most to them as they launched and developed their firms and their ventures was what counted.

I should emphasize here that I am situating capitalists' concerns within a framework that forefronts their material interests and not their specific ideological preferences for regime type. This approach is necessary for me as I have no access at this point to surveys of the political value preferences of people who were involved in business in the 1970s and 1980s in Taiwan; where possible, I will draw on work of others who have done surveys of these attitudes in China, but, to keep the analysis of the two places roughly comparable, I will draw mainly on material issues. Also, there are divisions within any group of businesspeople, and in neither country did (or do) all capitalists of all sizes (from large-scale to petty) adopt the same political position. Certainly capitalists are not all of a kind, and significant differentiation within the category can have real implications for regime perceptions of and treatment toward them,² and, in turn, for the capitalists' views of the state. But a case can be made that by the mid-1980s enough capitalists were disposed to assist in unseating authoritarian rule in Taiwan to bolster the likelihood of that event. This was not the situation in China in the early 2000s.

Theoretical Considerations

Social scientific predictions about the prospects for democratization in authoritarian regimes have often harked back to Barrington Moore and Samuel P. Huntington, both of whom target the business-related portion of the middle class as pivotal to the process. Moore's most regularly cited contribution has been his noted observation, "no bourgeois, no democracy"; he has also asserted that "the bourgeoisie . . . lurks in the wings as the chief actor in the drama [of democratization]." This judgment holds for Moore most notably for the initiation of parliamentary democracy: "An independent class of town dwellers has been an indispensable element in the growth of parliamentary democracy."³ In the years since Moore composed these thoughts, the installation of an elective legislature has been judged to be an indispensable feature of what is held to be a democratic regime. Huntington has also referred to the business sector as a critical advocate of democracy. In this regard, he has pointed out that "in every society affected by social change, new groups arise

to participate in politics”;⁴ under conditions of economic development and industrialization, an enlargement of a middle class is stimulated, a social category whose components, he holds, become “the most active supporters of democratization.”⁵

Huntington’s and Moore’s analyses about the bourgeoisie as a prerequisite for democratic development have not gone unchallenged, however.⁶ But whether they are correct or not, Moore, for one, did not write that every instance in which a bourgeoisie exists is one in which its members will agitate on behalf of and further the introduction of democracy. Rather, Moore proposed that this class was a necessary condition, but not a sufficient one, and that it was not poised to push events along a linear path toward democracy in every case.⁷

I submit that the part played by capitalists in the two societies of concern in this book depends upon the type of *guanxi* (or social connections) upon which these actors have been forced to, and have grown to, rely: Have they been able to work successfully with the current state to do their business, or have they had to turn elsewhere—to social forces outside the state—for backing? Related to this is that the nature and style of interaction that exists between a given regime and its businesspeople need to be examined. This relationship, in turn, is a function of a regime’s political goals and its corresponding economic developmental strategy, as seen in the politics of a state’s property ownership, plus its class and ethnicity policies. All of these more specific features and projects had and have a great deal to do with outcomes in the China and Taiwan cases, respectively, as we will see.

Huntington has speculated that the response of a regime to its business class, especially to one newly on the rise, is apt to be wary. He warned that in “exclusionary one-Party systems” (a type of regime in which “the Party maintains its monopoly over the political system by limiting the scope of political participation,” a label that fits both Taiwan before democratization and the PRC today), the regime will be prone to view a set of people whose wealth has recently increased as a likely menace: “The principal threat to the maintenance of [the system],” he wrote, “comes from the diversification of the elite resulting from the rise of new groups controlling *autonomous* sources of economic power, that is, from the development of an *independently wealthy* business and industrial middle class” (emphasis added, to make a point I will stress as I proceed).⁸ Depending upon how rulers choose to handle the moneyed class, the latter will or will not be in a position to build up significant ties with the regime. So I posit the business class as ultimately reactive in its relations with the state.

Huntington’s statement alerts us to the importance of asking two questions relevant to business-state connections that have implications for business’s bias toward regime change. The first one is: Just how “autonomous” were and are the “sources of economic power” of this portion of the middle

class prior to democratization in the locales of our concern here? Second, how will “the system” under review (or, more properly speaking, its elite) elect to respond to the potential challenge posed by these people? Indeed, the polity’s reaction to this social force should be a topic for inquiry, not a matter of certainty. Threatened top politicians can meet this challenge in a number of ways, as Bruce Dickson has shown, from complete rejection and exclusion to forms of co-optation and inclusion—from treating businesspeople as outsiders to seeing them as a partner in building up wealth.⁹ Where state co-optation of and support for businesspeople have been the mode of response, the capital comprising the ventures in question cannot be considered to be “independent.”

The second inquiry, about reactions from above, can benefit from the insight of Charles E. Lindblom that “any government official who understands the requirements of his position and the responsibilities that market-oriented systems throw on businessmen will . . . grant [businessmen] a privileged position.”¹⁰ True, during the time when the two states were not democratic, it would be quite inaccurate to label their “systems” pure market ones. But certainly both were “market-oriented” during the years following the early 1980s. Lindblom’s reminder is that in general politicians governing a market economy do require the cooperation of capitalists to bolster their rule. The disagreement among scholars over how political leaders might perceive the existence (or, in a newly marketized economy, the advent) of a bourgeoisie—as a threat and adversary, à la Huntington, or as a necessary ally, as per Lindblom—also skirts over the critical issue noted above of the diversity among the businesspeople in any one context. All of these considerations have a bearing on the repercussions that the presence of a bourgeoisie might have for political change.

To summarize, the critical items here are these: the conditions under which a business class is apt to agitate for democracy, the factors that shape a regime’s reactions to the existence of businesspeople within its borders, the degree of autonomy from the regime of the economic resources of the moneyed class (or particular sections within it), the relation of economic resources to power in different places, and the extent to which subdivisions (and subdivisions of what sort) within any given capitalist class might have a critical bearing on the interaction between these different subdivisions and the political leadership.

A key to answering these queries is to bring the phenomenon of *guanxi*, the Chinese term connoting social connections, into the equation. According to Mayfair Mei-hui Yang, the term (at least in China) refers to the cultivation of personal relationships and “the binding power and emotional and ethical qualities of personal relationships,” including the “obligation to give, receive, and repay.”¹¹ Similarly, for Gary G. Hamilton, the term pertains to “certain sets of ties that are bound by norms of reciprocity.” “Most anthropologists and sociologists of Chinese society,” he relates, “argue that *guanxi*, which includes

relations and relation building, lies at the heart of Chinese society.”¹² Certainly, however, these formulations could have broader applications, beyond just the case of China and its style of personal connections, for patron-client-style linkages between business and the state operate globally.

Entailed in the notion of *guanxi* are “networks of mutual dependence” and a corresponding indebtedness. The personal relationships so nurtured are “based implicitly on mutual interest and benefit, and on an expectation that a favor entails a debt to be repaid; they have a binding power and primacy,” Yang explains.¹³ The phenomenon of committed personal ties of this sort can assist in analyzing the variable linkages between regime and bourgeoisie that obtained in predemocratic days in each of the two polities, and, my argument goes, this type of tie also structured (in Taiwan) and continues to structure (in China) the stances of these classes toward regime change.

The definitions laid out above suggest that the concept of *guanxi* contains within itself the possibility of several oppositions, depending upon its presence or its absence between any two parties (with “parties” understood collectively, such as “the state” and “the bourgeoisie”). For example, in the grammar of *guanxi*, where there is indebtedness, there should be loyalty, and the converse will apply as well; where there are debts incurred, there should not be antagonistic demands. But where there are no debts, such demands may well surface. Moreover, where there have been courtesies and assistance, there should be gratitude; but where there has been none (or, worse yet, where there have been slights and rejection), then grievances, and the potential for opposition, are in order.

Stretching the concept further, within a *guanxi*-governed society, not only gratefulness but also dependency often accompanies indebtedness, whereas autonomy creates space for opposition. The upshot of these propositions is that those who have been beneficiaries—who have ties of *guanxi* with the governors—will tend to feel indebted and thus to act loyally, and so are less apt to call for change, more apt to favor the preservation of the status quo to which they see their own fate (and their privileges within it) as bound. Those who have been neglected or ignored—or even wronged—are, conversely, prone to be proponents of change. And, finally, from the regime’s perspective, those who have been patronized can be a source of cooperation, whereas those who are estranged can become a threat. These alternatives are pregnant with implications for the postures toward politics and regime transition entertained by the purveyors of private capital in the PRC (in the present) and in Taiwan (in the past).

In what follows, I start with some similarities and differences between pre-1986 Taiwan and today’s China, in order to justify and qualify the comparisons that will follow. Next, I set out several considerations about each regime and its capitalists, in accord with the framework and propositions offered above. First, I look at the goals and behaviors of each polity (and the

transformations in these goals over time). Second, I review these two states' treatment of these people in their predemocracy days. Third, I reflect upon the ethnic and class origins of each bourgeoisie. These factors each had important conditioning effects on the type of relationships—and the presence or absence of *guanxi* in them—that unfolded over time between state and bourgeoisie in each location and, in turn, on the consequences for democratization, whether realized (in Taiwan) or theorized (in China). I assess these effects in my last section.

Similarities and Differences

The states both in post-Mao, “reform”-era, China and in pre-1980 Taiwan can fairly be labeled authoritarian regimes, ruled variably dictatorially by a single, Leninist-type political party. In both cases, the party brooked little if any freedom of speech while making wide use of censorship. Also in both, there was no space for the autonomous organization of private interests, as the empowered party aspired to penetrate social groups of all colors. Where corporatism and transmission-belt management were not employed to rein in nonstate communal entities, these regimes endeavored either to repress or to co-opt the members.¹⁴

Another factor here is something that Chu Yun-han has written of Taiwan in these years, that is, that the party there governed through an “authoritarian equilibrium” that “depended on prosperity”; these words could just as well have been penned in description of its neighbor to the north after 1980.¹⁵ As for economic policy, again there were marked parallel features. In both, state ownership was prominent, and small business stood at a disadvantage, since governmental generosity was bestowed only upon the larger firms, especially those in the possession of the party or the government.¹⁶ In neither case did the owners of the smaller enterprises find it easy to acquire loans from the big banks that operated under the aegis of the state.¹⁷ Both places also continue up to the present to operate with some reference to the Confucian-based principle of *guanxi* and the mutual obligation it entails.

Perhaps most centrally for the purposes of this chapter, both places experienced phenomenal state-led industrialization and modernization—in Taiwan especially from the 1960s through the 1980s, and in China in the 1980s up through the present.¹⁸ And also in both, one outcome of that growth was the birth or rebirth of what could be called a middle class.¹⁹ Whereas in Taiwan in 1949 there has been said to have been only a tiny middle class following the 1895–1945 Japanese occupation,²⁰ by the late 1980s, somewhere between 25 and 40 percent of the population could be counted as belonging to that category. A recent study of China gives a figure of 35 percent for the early twenty-first century.²¹ For Taiwan, a number of analysts link the rise of such a sector

within the population to the appearance of democratization.²² These various similarities justify the comparison between two political entities, both of which govern societies where Confucian values, and consequently traditional notions of *guanxi*, influence the populace. The similarities lay the groundwork for my extension of an insight about Taiwan's bourgeoisie to a prediction about China's.

Yet the differences between the two sites are also pertinent to the story at hand. The most prominent is that, regardless of its hefty share of productive assets, the Republic of China/Kuomintang regime managed an economy that was essentially capitalist. In contrast, after 1979 the PRC's economy was in transition from a socialist, planned economy, and only progressively acquired more and more capitalist elements through the 1980s and 1990s.²³ This means that private business existed in Taiwan for nearly four decades before the breakthrough to democracy occurred, whereas in China private business only gradually achieved the right to operate openly after 1979. For a period in the 1980s it was still officially ideologically suspect, which it again became for a few years after 1989. A second major difference is that the two governments ruled under quite dissimilar external circumstances. In Taiwan, US pressure, with which Taiwan was forced to comply, in light of its heavy dependence on US approval for its weapons supply, market access, and indeed, its very survival,²⁴ pushed for the existence of a private sector from the start. To the contrary, leaders in China were in no sense beholden to the United States and could select any developmental model they wished.

Third, and most critical, the KMT on Taiwan was ruling the island as outsiders, initially comprising Chinese who arrived there in the late 1940s from China, in a society that considered itself "Taiwanese." What was perceived by the "natives" as an ethnic split became a crucial divide within the business sector in Taiwan, one that mirrored the most flagrant political split within the populace. This ethnic cleavage was a division between the large businesses (mostly either mainland-originated or state-run [read KMT-run]) and the private-sectoral small and medium enterprises (SMEs) (generally Taiwan-owned firms). From my perspective, the most telling tidbit on this theme is provided by Alexander Ya-li Lu, who, writing in the early 1990s, distinguishes an older from a "new" middle class. He holds that the latter group, which comprised intellectuals, professionals, and businesspeople, was the source of both the main members and the activists of the *dangwai*, or opposition movement, and that the majority of the members of this group were of Taiwanese origin.²⁵ Along this line, in the words of a recent author, the state in Taiwan practiced "coercion and manipulation of the private sector,²⁶ especially *insofar as its owners were Taiwanese*" (emphasis added).

These insights inform my contention that the "middle class" or, for the purpose of this chapter, the portion of it known as the "bourgeoisie," needs to be disaggregated for political analysis. Correspondingly, such disaggregation

is necessary too for my claim that the nature of this part of the middle class's relation to the regime—and therefore its stance toward regime change—may have to do with the specific treatment that group has received from the regime. This variable—in contrast to the rise in income and education that characterized all businesspeople in Taiwan over time—leads me to a more nuanced explanation of the connections between class and political support for or against the regime and, accordingly, for or against regime change.

In China, there neither is nor has there been any such ethnically based separation of any political significance among businesses. On the other hand, vestiges of the former socialist system have fostered *ownership/class-based* distinctions (i.e., small firms tend to be the creations of farmers or previous outcasts such as ex-prisoners, whereas bigger ones often got their start with help from or even leadership by state or party officials) that continue to carve up the capitalists. The Taiwanese state purposefully excluded most Taiwanese entrepreneurs and limited the scale of their ventures, planting the seeds of grievance and anger for decades. In China, alternatively, those with close connections with the state (its officials, its enterprises) prospered, such that an expanding number of those in business could promote their activities unimpeded and even encouraged. The following sections explore these differences in more depth.

State Behavior

In this section, I trace the regime goals and behavior toward entrepreneurs over time in both places. In the following section, I will lay out the origins and composition of the businesspeople in each place, setting the stage for the last section, in which I draw conclusions about the political stances of each set of capitalists in each country, as a function of those goals, behaviors, and types of businesspeople.

When the KMT government first reclaimed and then retreated to the island of Taiwan after 1945, it encountered an alien population, one composed mainly of Chinese people from China's southeast whose ancestors had migrated there over the past several centuries but who—chiefly because of the prior, 50-year colonial overlordship of Japan—had developed a separate identity as “Taiwanese,” not just as “Chinese” people. The bifurcation this engendered between two subethnicities within the Han group was only exacerbated by rapacious and violent behavior toward the Taiwanese on the part of the incoming KMT.

Aware that their regime was that of a set of conquering outsiders and that it was, accordingly, weak on legitimacy, the newcomers were desperate to keep down the natives in the hope of preventing or eliminating potential opposition. They therefore worked to attain the following aims: to obstruct any eco-

conomic rivalry from the locals; to make the economy thrive through their own efforts; and to ensure the security and survival of their own rule.²⁷ The KMT also prioritized a vibrant economy so that its output would undergird the political project of recovering China.²⁸ As just stated, an important effect of Nationalist strategy—especially when combined with the KMT’s various measures to limit the size of the small Taiwanese firms (to be discussed later)—was to draw a line in the sand between local and outsider/state firms, for the most part privileging the latter and antagonizing the former.²⁹ Michael Hsin-huang Hsiao remarks on there “always” having been ethnic tension between the KMT state and Taiwanese businesses.³⁰

In China after 1978, in the aftermath of the death of the omnipotent Mao Zedong, the situation was similar, yet different in significant ways. There the post-Mao political elite was also bent on (re)constituting authority and bolstering its legitimacy; the recent past there, however, was one in which China’s own leaders (not Japanese officials or KMT carpetbaggers) had pretty much alienated the population as a whole with the ravages of the Cultural Revolution, which had just been brought to a halt. For these leaders, there was no question of barring any specific subgroup from participation in its hell-bent drive to boost productivity, jack up the economy, expand jobs, and improve living standards, for the elite was straining mightily to elevate China’s national stature and, just as important, to recapture the hearts of the populace.³¹ A strong economy could only bolster the chances for these outcomes.

To these ends, the regime resurrected private business as early as 1979,³² and by early 1984 was recognizing the value of this activity publicly in a central party document.³³ In 1987, the leadership conferred a grant of official legitimacy on private entrepreneurship,³⁴ and in the following year, Article 11 of the state constitution of 1982 was amended to permit the private sector “to exist and develop within the limits prescribed by law.” In 1999, the same article was again updated to read that “the non-public sector of the economy comprising self-employed and private businesses within the domain stipulated by law is an important component of the country’s socialist market economy,” adding that “the state protects the legitimate rights and interests of the self-employed and private businesses.” In March 2004, the constitution was once more revised to include protections for private property, stating that it was to be elevated to an “equal footing with public property.”³⁵

On many occasions, the party repeatedly affirmed its overriding priority of economic growth, development, and abundance.³⁶ As Bruce Dickson has astutely described the situation, as the party’s mission shifted in late 1978 from revolution to the task of bolstering “socialist economic modernization,” people engaged in business were increasingly protected and even courted, as he phrased it, both “to promote the Party’s agenda” and to “prevent . . . a challenge to the state.”³⁷ In light of this objective, in July 2001, then party chief Jiang Zemin proposed removing the prohibition against admitting entrepre-

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neers into the Communist Party, a ban that had been formally in force since 1989 but often honored only in the breach, in any event.³⁸ This bid served as an offshoot of Jiang's Theory of the Three Represents, an indirect offer of inclusion to various social forces traditionally ranked outside the party's past constituencies, especially businesspeople.³⁹ True, these formal bows to the bourgeoisie amounted to a tacit acknowledgment that their political status had remained suspect at least into the early 1990s. But even the smaller fry were thriving by then.

In addition to admitting entrepreneurs into the party and creating an environment in which even party members themselves felt free to go into business (*xiahai*)⁴⁰—a trend that picked up considerable speed in and after the early 1990s—in recent years the party has advanced various policies whose effect has been to raise the incomes and improve the lifestyles of a new “middle” segment of society that includes professionals, private entrepreneurs, and state bureaucrats. Behind these steps are the state's hopes of forming a high-consumption component of the population whose buying will invigorate the national economy. Among these moves has been a series of salary increases, along with a program that endowed state firm employees (and other elements of the new middle class who are connected to the state and public employment) with an opportunity to purchase their own housing at very low rates.⁴¹ By the middle of the first decade of the twenty-first century, it was possible for Scott Kennedy to judge—after hundreds of hours of interviews with businesspeople—that these individuals enjoyed “shared goals” with the state; David Goodman similarly speaks of a “community of interest” between the middle class and the party-state.⁴²

In sum, both states had issues of legitimacy to deal with, the KMT in 1949 and the CCP after 1978. Both, in the interest of attaining such legitimacy, also chose to enhance their economic prowess, not only in the eyes of their own populaces but also in the international arena. Clearly, for both regimes this would entail taking a position toward the sectors of society poised to contribute economically, and for both this would mean some form of management of groups that the government had more or less marked as outsiders.

Despite similar goals, when it came to these governments' practical stances toward the businesses within their realms, they made different choices. The KMT viewed this as a question of grappling with a populace ethnically distinct from the one that the party itself represented and, consequently, one that could be threatening, from the rulers' perspective. For the CCP, however—which by 1978 had long been dominant and effectively unassailable—it was a matter of simply reversing its prior class standpoint, along with its definition of its foundation ideology of socialism (so that state ownership was no longer to be a necessary feature of that ideology), a new posture it began by 1979 but that took some years to consolidate.

It is possible to cast these respective state choices in the form of a broad

contrast: the KMT elected to handle its legitimacy problem by keeping the native Taiwanese at a distance, for the most part, despite some softening of its stance over time, in what amounted to a generally *exclusionary* strategy. So native Taiwanese firms were left out, even as the regime nurtured big business, most of which its own mainlander colleagues monopolized. The CCP, on the other hand, opted after 1979 to enhance its legitimacy by gradually broadening its class base, in particular, by enforcing a project of *inclusion* over time, insofar as the bourgeoisie as a whole was involved. I go on to elucidate this contrast in more detail.

Through what specific policies and measures did these states, respectively, essay to exclude or include their more moneyed citizens in the pursuit of the aims specified above? To answer the question for Taiwan requires going back in time to the late 1940s, when the KMT state was just beginning to entrench itself on the island. In the first days of its rule, the KMT confiscated 1,259 units of so-called enemy enterprise property, which comprised strategically vital financial, transportation, basic utility, and manufacturing assets.⁴³ As many as 85 Taiwanese industrial firms were also grabbed up by the KMT in the five years between 1945 and 1950.⁴⁴

In the course of these takeovers, local employees were dismissed, and such rancor was engendered by the process as a whole that one of the demands in the famous February 1947 Taiwanese protest movement was for the right to manage public utilities.⁴⁵ Meanwhile, mainland-originated capitalists were allocated government resources on the basis of connections established before migrating to the island.⁴⁶ Both in the early years when import substitution was emphasized and US aid was generous, and continuing over time, mainlander enterprises got preferential treatment in the regime's economic development strategy.⁴⁷ Some 45 years after the installation of the KMT regime on the island, Chu Yun-han was able to term the extent of state assets "huge."⁴⁸ Other writers in Taiwan have speculated that two of the chief aims behind these moves were to provide the KMT with autonomy from local society as well as to endow the party with the necessary financial and economic resources to dominate the Taiwanese.⁴⁹

Even in the 1970s, when the KMT leadership was once again struggling to sustain its legitimacy in the wake of its expulsion from the United Nations and the United States' initiation of proto-diplomatic dealings with the PRC—a time when the KMT-led regime began to incorporate Taiwanese people into the party and even to place them in positions within the government—state firms were granted the principal part in major industrial projects, a choice Hsiao maintains was made in order to enhance and sustain the weight of the state-controlled sector. The only opening to the Taiwanese at the time was what has been cast as a ploy to co-opt them through joint investments, plus offering some of them slots on the governing boards of business organizations.⁵⁰

Beyond specifically privileging mainland Chinese and party-affiliated

firms, in the view of its critics the KMT also posed barriers that—intentionally or otherwise—acted to limit the growth of private, especially Taiwanese, firms.⁵¹ The small and medium enterprises that the Taiwanese tended to operate and own received scant support from the state; besides, they failed to qualify for state-proffered incentives available just to larger firms.⁵² The upshot was to marginalize the native enterprises, keeping them either small or only medium in size.⁵³ Even when Taiwanese people were admitted into the state economic bureaucracy, Chu notes that they were not in positions that would enable them to handle top-priority policy matters and, what was even worse, were put under close scrutiny, in order to ensure that they did not favor the local private sector.⁵⁴ Chu also tells of how the larger, state-connected firms engaged in collusive pricing, which hurt the business of the smaller downstream firms.⁵⁵

These various restrictions to which they were subjected effectively prevented locals from entering the manufacturing sector.⁵⁶ The final insult was an imaginary line that cut up the populace ethnically, blocking native people from participating in national politics until the 1970s.⁵⁷ This ostracism extended to a refusal on the part of the rulers to incorporate Taiwanese businesspeople's views on policy.⁵⁸ In short, in the words of Shiao Chyuan-jenq, "before the mid-1980s, the authoritarian state was powerful enough to retain the upper hand with the business community."⁵⁹

Lacking ties to the ruling party or even to influential channels within the government, the small and medium firms, virtually all of which were Taiwanese-owned, were cast back upon their own personal *guanxi* for capital and other resources and for business networks.⁶⁰ Indeed, Gary Hamilton has called Taiwan's a "networked economy" and described what occurs there as a "*guanxi* capitalism";⁶¹ Susan Greenhalgh went so far as to elaborate a model in which "family networks undergird the economy."⁶² In the early 1980s, she avers, as many as 97 percent of private industrial firms were structured around families;⁶³ moreover, she noted at that time, "being Taiwanese" meant that to climb socially and economically it was imperative to draw on family, community, and religious ties.⁶⁴ Chu Yun-han found it possible to make the same claim a decade later, pointing as well to the lack of lineage bonds between the native Taiwanese and the power-wielding mainland Chinese that obtained as of the early 1990s.⁶⁵ Certainly this relegation to the outside left its sourness among the entrepreneurs who were left out, even as they managed to thrive on their own.⁶⁶ This meant that the key to the commercial success of these native firms was their own, nonstate connections, their friends and relatives, and various sorts of "curb-side" or other forms of informal money markets.⁶⁷

In China, to the contrary, though the smallest firms also struggled in a netherworld of bureaucratic predation⁶⁸ and an absence of official protection or financing once they were resanctioned after 1979, any capitalist venture, however petty, that was founded by or supported by CCP officials—or by someone

with good *guanxi* with party or state officials—routinely became the recipient of an array of rewards and facilitations that smoothed the way toward business success. These benefits could range from access to necessary raw materials, to licenses, or to bank credit.⁶⁹ With time, the members of the local bourgeoisie were often courted by petty bureaucrats and officials and admitted into the party itself if they were not already party members, their firms sometimes also absorbed by grassroots governments or their personnel.⁷⁰ And already in the 1980s private business in the rural areas expanded its opportunities by building ties with officialdom,⁷¹ or, often, by donning a so-called red hat, that is, hiding its true private essence by arranging with cadres to register as “collective.”⁷² Such cadres had a clear incentive to take them in, for this increased the chance that the locality could meet or surpass its quota for rapid growth.⁷³

By early 1990, it was already possible to speak of the two sides—bureaucrats and businesspeople—as “symbiotic,” a description that only grew more and more appropriate with time.⁷⁴ By the early 2000s, managers and operators of large firms were involved in direct interaction with government officials in the central government on policy germane to their enterprises, and their organizations—even if created, penetrated, and supervised by the party—could even be said to be influential on matters of concern to the businesspeople in them, whose open lobbying on behalf of their interests was often effective.⁷⁵ Whether through co-optation of individuals or through corporatist connections on a collective basis via state-sponsored associations, business—especially larger business—worked in lockstep with the regime.⁷⁶ Here then we see a major difference in the locus of the *guanxi* (or business alliances) on which much of the bourgeoisie relied (in Taiwan) and relies (in China) in predemocratic days. I go on to explicate the implications for businesspeople’s stance on regime change of this variable location of *guanxi* in the two places.

The Political Stance of the Bourgeoisie

Based on the analysis above, it is possible to draw some conclusions about the governance preferences of the bourgeoisie in China and Taiwan, respectively. The argument up to this point has been that simply being a member of the bourgeoisie does not affect one’s political stance in a uniform way regardless of the political context. Instead, I hold, to understand these people’s political positions it is necessary to inquire about the site to which businesspeople generally look when they try to succeed in the marketplace. In both places—perhaps as a reflection of the staying power of Confucian customs—excelling at getting wealthy through buying and selling appears to depend upon one’s personal support system.⁷⁷ In Taiwan, for the native businesspersons, such systems’ components have been one’s family and friends; in China they are usually party officials, whether in one’s home region or in Beijing. To take a clos-

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er look at these networks, I turn next to the origins and composition of the bourgeoisie in both places.

A quick review of the sociopolitical backgrounds or origins of the members of these groups will establish the groundwork for understanding from the business side the linkage between state goals and objectives and how the business operators did or did not get to play a role in them. The first step is to distinguish between the owners or managers of firms of different sizes. In Taiwan, the larger firms were usually (though, granted, not in every case) ones that originated from mainland capital and were nearly always those connected to the state or the KMT, and these were the ones that grew large through their proprietors' *guanxi* with and, consequently, allegiance to the state.⁷⁸ The SMEs, then, were the ones in the possession of what could be called members of the middle class.⁷⁹ Although the big businesspeople came from China after 1949, forged their firms from their compensation after land reform, or were recipients of US aid in the 1950s,⁸⁰ most of the smaller ventures (which grew into medium ones with time) tended to be the product of the export trade in which Taiwanese capitalists engaged in the 1960s. What native bourgeoisie existed in Taiwan after the 1960s was largely an extension of these early SMEs.⁸¹

According to Michael Hsin-huang Hsiao, the good fortunes of these SMEs was not the product of state policy, but instead occurred thanks to their entrepreneurs seizing the opportunity of the world market after the domestic one had become nearly entirely dominated by outsiders, the *waishengren*.⁸² The same policies that unintentionally benefited these businesses, Hsiao holds, also attracted foreign direct investment from the United States and Japan, which in turn promoted more SMEs.⁸³ Another group of outward-oriented SMEs developed out of persisting trade with Japan, a business that Taiwanese merchants carried forward from prehandover times.⁸⁴ Apparently those native businesspeople who experienced the growth and prosperity of their SMEs by the late 1960s were in no way beholden to the Republic of China state.

In China, to the contrary, Bruce Dickson has pointed to the "common backgrounds and shared interests of the emerging middle classes and state officials."⁸⁵ This situation was distinctively different from what happened on Taiwan; David Goodman, basing his comments on his study of local (mostly rural, it appears) elites in Shanxi Province, has observed that small-scale private entrepreneurs intent upon expansion normally depend upon close collaboration with their local governments or with connections within the party.⁸⁶ Among the strategies he cites for becoming a businessperson, Goodman points to some cadres' children capitalizing on their parents' ties within the party; others, he notes, were themselves once village heads or local party secretaries.⁸⁷ In a somewhat earlier study, Susan Young found that 60 percent of the rural private entrepreneurs she surveyed had been cadres before stepping into the world of capital.⁸⁸ And in a later piece, Bjorn Alpermann also discovered

that the majority of those practicing business in the rural areas he researched had once been cadres or were still simultaneously in such a role.⁸⁹

Kristen Parris, Lu Xueyi, Kellee Tsai, and David Wank all trace successive streams of entrepreneurs who established themselves from the late 1970s onward. All of them agree that, in the words of Wank, as businesspeople built up their firms, over time each group, as it surfaced, had “better [social] capital for linking with local state agents.”⁹⁰ And it has been the late entrants into the marketplace who have succeeded the most handsomely. At the national level as well, the operators of big business have been ever more ensconced within the ranks of officialdom.⁹¹

On the basis of the foregoing, I turn now to investigate the effects for democratization (or potential democratization) in China and Taiwan of a moneyed middle class. To begin with Taiwan, Cheng Tun-jen, writing in the late 1980s after the democracy movement was overtly launched, called this drive a “middle class movement,” one with ties to small business.⁹² Likewise, Shiau Chyuan-jenq, more than a half decade later, confirmed this assessment in his statements that “in comparison to large or public enterprises, [exporting SMEs] had much weaker political links to the ruling party and the executive system of the state. . . . It has been said that the opposition Democratic Progressive Party was primarily funded by the contributions of small and medium-sized businesses.”⁹³

In China, to the contrary, by the late 1990s, as Chen Jie has discovered, private entrepreneurs exhibited a level of “diffuse [or generalized] support” for the regime that pretty much matched that of state enterprise cadres, a level that was also not far from that of government bureaucrats. In terms of their “specific support” (in regard to particular state policies), as an occupational group they ranked second only to the military and to state bureaucrats.⁹⁴ Various analysts have offered their opinions as to why this may be the case, ranging from capitalists’ fears that political instability, or—worse yet—fundamental change, could undermine their positions; to being hostile to politics; to being pragmatically single-minded about their work in business; and on to being grateful and, thus, loyal to the regime or to officialdom as a whole for specific policies or for individual support.⁹⁵ True, it has been found that some big firms’ capitalists might favor democracy for some of its features, but they do not work or agitate for its appearance.⁹⁶ One indication of this point is the interesting fact that, of the 151 most active members of China’s one failed opposition party, the China Democratic Party that emerged in 1998, just three were private entrepreneurs.⁹⁷

Conclusion

This chapter began with the ambition of fine-tuning a major proposition about the likelihood of democratic transformation in China by reviewing the rela-

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tionship between the growth of a moneyed portion of the middle class in Taiwan, on the one hand, and its support for the end of the authoritarian regime under which it lived, on the other. The idea, as throughout this book, was to see what Taiwan's experience could foretell about China's potential for this kind of change.

Instead of finding that—despite some similarities between the two places—China's recent prosperity will be apt to mimic Taiwan's, socially and politically, I have suggested that more accurate predictions could be garnered by looking more closely at the conditions under which a business class is apt to agitate for democracy. It appears now that the stories of these two cases are different in a crucial way. A principal variable for assessing this result, I found, is the existence or absence of tight, supportive bonds between the business class and its political regime. Where the bulk of the bourgeoisie is very satisfied and well-served by the state, its support for regime change should be much lower than where the reverse is the case.

I also asked about the factors that shape a regime's reactions to the emergence of such a class; it now appears that in Taiwan, where ethnic differences marked a region being conquered from the outside, the incoming rulers were disposed to reserve the sphere of business for themselves and their co-nationals, as a safety precaution against being outmaneuvered by the locals. If, variously, as in China, the rising class has been nurtured by and co-opted into the regime, that regime is unlikely to fear moves toward autonomy from the former. Moreover, the analyst needs to be cognizant of the existence of various segments within a business class, for ethnic and size factors may mean that generalizations that are too broad can be unwarranted.

Political prediction is always perilous. Can we really draw any implications for the case of China from what we know to have happened on Taiwan, just on the basis of the loyalties of their respective affluent classes? To ensconce my hypothesis about connections within a relatively safe framework, I placed it upon the fairly firm terrain of personal connections, which, as a common folkway in the two Confucianist societies of China and Taiwan, made it reasonable to compare the two. But training a spotlight on the similarity of *guanxi*'s necessity for good business in them both only served to highlight the crucial difference of the partners with whom businesspeople have been forced to—or been able to—work in the two disparate contexts. It would seem reasonable to infer that when the political elite is the patron of the capitalists, the latter would be more prone to protect the regime at hand than to work to cause it to collapse.

Notes

1. The best recent study on the topic is Tsai 2007.
2. Tsai 2005.
3. Moore 1966, 418, 422.

4. Huntington 1968, 21.
5. Huntington 1991, 65–67.
6. Collier and Mahoney 1997; Rueschemeyer, Stephens, and Stephens 1992; and Bellin 2002.
7. Stories that counter such a prediction can be found in O'Donnell 1973 and Stepan 1985, both writing on the role of business in Latin America.
8. Huntington 1968, 15, 20.
9. Dickson 2003, 1997. Dickson has mentioned both co-optation and building corporatist links with capitalists' associations as adaptive strategies. Other possibilities are to eliminate capitalists, expropriate their assets, exclude them, or limit their growth.
10. Lindblom 1977, 175.
11. Mayfair Mei-hui Yang 1994, 1, 6.
12. Hamilton 1998, 57.
13. Yang 1994, 8.
14. For Taiwan, Tien 1989, 43, 46, 59–60; Hsiao 1995b, 80–82; and Weller and Hsiao 2003, 174. On China, see White, Howell, and Shang 1996, 27, 31.
15. Chu 1992, 30. For China, Dickson 1997, 154; 2004, 149.
16. Hsiao 1995b, 82.
17. For Taiwan, Wu 2005, 287–288; Greenhalgh 1988, 234, 243; and Hamilton 1998, 70; for China, Tsai 2002.
18. Good sources on Taiwan are Cheng 1989, 481; Myers 1984; Gold 1988; and Tien 1989.
19. For Taiwan, Fan 2004, 166–167; Gold 1997, 166; Alexander Lu 1992, 122–123; for China, Lu 2004, 270–275.
20. Tien 1989, 30; Cheng 1989, 475. Gold 1988, 182, states that the KMT “liquidated or suppressed native elites,” and as others have noted, the KMT’s February 1947 massacre of locals wiped out the local elite. See Lin Man-houng 2006, which says that some Taiwanese merchants were arrested in the 1947 massacre. Thanks to Julia Strauss for providing this reference.
21. Tien 1989, 33; in a later publication, Tien estimated that the proportion was one-third, as of the early 1990s (Tien 1992b, 36). For China, Lu 2004, 97, 275.
22. Tien 1992b, 35; 1989, 31, 33, 42. Hsiao and Koo 1997, 313, question drawing a simplistic correlation between the rise of the middle class and the advent of democracy. Chu 1992, 125ff, states that democratization heightened business influence in government after 1988 and not the other way around.
23. For Taiwan, see Cheng 1989, 478.
24. Gold 1988, 182; Cheng 1989, 492.
25. Alexander Lu 1992, 122–123. Like Chu and Cheng, this author did his work in the immediate aftermath of the democracy movement’s initial victory. Lu 2004, 270, includes in his “new middle class” people who do mental labor, have a higher education, are paid in wages, and are influential in social affairs.
26. Wu 2005, 297.
27. Shiao 1996, 216; Tien 1989, 24.
28. Gold 1988, 200.
29. Ho 2007 refers to “antagonism.” Thanks to Julia Strauss for providing the Ho article. A similar distinction among two business classes can be found in Gates 1981.
30. Hsiao 1995b, 82.
31. Parris 1999, 265, 282.
32. Solinger 1984, 201–205; Young 1995, 132–133.
33. Young 1995, 106.
34. *Ibid.*, 110.
35. This is taken from an e-mail sent on March 5, 2004, by Michal Korzec.

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36. For instance, in a *People's Daily Online* statement on May 31, 2002, then party general secretary Jiang Zemin proclaimed an order to "make prosperity the national economy."
37. Dickson 2003, 23, 26, 29; Alpermann 2006, 33.
38. Dickson 2003, 1, 103.
39. This paragraph was borrowed from Solinger 2003. See also Fewsmith 2001, 230; Lawrence 2000; and Nathan and Gilley 2002, 116, 167–168. According to Nathan and Gilley, 168, the theorists who developed the concept did so out of a recognition of the growing significance of the middle class.
40. Dickson 2003, 106; Parris 1999, 268; White, Howell, and Shang 1996, 198–199.
41. Rosen 2004, 27–28; Tomba 2004, 3, 5–7, 25.
42. Kennedy 2005, 55; Goodman 1999, 261.
43. Liu Chin-Ching, *Taiwan chanhao chingchi fensi* [An Economic Analysis of Postwar Taiwan] (Taipei: Jenchien, 1992), 24–28, cited in Ho 2007. Chu 1992, 26, states that "the party controlled a complex web of party-run or party-invested enterprises and billions worth of financial assets." Hsiao 1995b, 82, cites unofficial estimates as holding that "about half of the total assets of Taiwan's corporations" were "controlled directly or indirectly by the state and the party." See too Cheng 1989, 476. Chu 1994, 118, lists the economic and political functions of state firms.
44. Wu 2005, 41, 46.
45. Cited in Ho 2007.
46. Wu 2005, 101.
47. Hsiao 1995b, 82; Gold 1988, 70; and Wu 2005, chap. 4, for Taiwan; for China, White, Howell, and Shang 1996, 201.
48. Chu 1994, 118; Hamilton 1998, 44–45; and Wu 2005, 40–41, 46.
49. Ho 2007; Hsiao 1995b, 85; Wu 2005, 81, 297.
50. Hsiao 1995, 82–83.
51. Cheng 1989, 481, claims that this was done in part by not picking out "national champions" to foster from among these firms. See also Wu 2005, 39, and 118–130. On the other hand, Gold 1988, 73, states that the KMT did select cronies, but of course with only a small handful of exceptions, these would not have been people who were ethnically Taiwanese. Wu 2005, 117, makes the same point. Chu 1992, 21, refers to entry barriers, as does Gold 1988, 190, as well as monopoly licenses and government grants targeted at party-controlled enterprises, all instituted to protect favored firms from private competition. Hamilton 1998, 45, 69, charges that since the state monopolized supply infrastructure and basic goods and services (electricity, gasoline, steel, petroleum, and others), it kept such sectors out of private hands.
52. Wu 2005, 285–287, 296.
53. Chu 1992, 132.
54. *Ibid.*, 133.
55. *Ibid.*, 136.
56. Chu 1994, 118.
57. Gold 1988, 184, 190, states that all businesspeople were barred from politics, not only those native to Taiwan.
58. *Ibid.*, 190.
59. Shiao 1996, 219.
60. *Ibid.*, 222; Tien 1989, 37; Hamilton 1998, 43; Gold 1997, 179; Chu 1992, 133.
61. Hamilton 1998, 49, 71, for Taiwan. Parris 1999, 280, on China, quotes an official as referring to China's "connection economy [*guanxi jingji*]." The difference,

though, is that who is connected to whom in each place in order to carry out business successfully varies in a significant way.

62. Greenhalgh 1984, 20; 1988, 234.
63. Greenhalgh 1984, 532.
64. *Ibid.*, 537.
65. Chu 1994, 114, 117.
66. Tien 1989, 37.
67. Gold 1988, 71; Hsiao 1995b, 84, 88–89; Wu 2005, 304–308.
68. This sort of treatment was most severe at first, in the early 1980s, when full ideological and constitutional blessings had not yet been bestowed upon these tiny businesses. See Solinger 1984.
69. Dickson 2004, 144; White, Howell, and Shang 1996, 201.
70. Dickson 2003; Parris 1999, 281.
71. Young 1995, 95ff, describes various forms of informal cooperation between private operators and state or collective firms.
72. Parris 1999, 265, 268.
73. *Ibid.*, 108–109.
74. Solinger 1992; Wank 1999, 69; and Dickson 2003, 107. Another way of putting this is in Goodman 2001, 134, which speaks of “interdependence and accommodation” between the two groups.
75. Kennedy 2005, 27, 32, 54, 164; Pearson 1997, 100.
76. Pearson 1997, 101, 107, 111, 115; Dickson 2003; White, Howell, and Shang 1996, 207.
77. Goodman 2001, 133, has written: “Entrepreneurs [in China] need to network to succeed.”
78. Hsiao 1995b, 85–86.
79. Cheng 1989, 474.
80. Gold 1988, 188–189; Wu 2005, 91–98.
81. Gold 1997, 166. The only data I could get that demonstrate to some extent the contribution of smaller firms to Taiwan’s economy in the earlier decades come from Surveys on Industry and Commerce, the Executive Yuan, Republic of China, for the manufacturing sector, for the years shown here. The manufacturing sector is the mainstay of the economy. Small and medium enterprises’ shares of the output value in the manufacturing sector are as follows: for 1971, 26.72 percent; for 1976, 27.32 percent; for 1986, 33.83 percent, and for 1991, 37.67 percent. Thanks to Cheng Tun-jen for these data and explanation.
82. Hsiao 1995b, 78–79.
83. *Ibid.*, 79.
84. Lin Man-houng 2006.
85. Dickson 2003, 12.
86. Goodman 2001, 139.
87. *Ibid.*, 149–151.
88. Young 1995, 115.
89. Alpermann 2006, 40.
90. Parris 1999, 266; Lu 2004, 277–278; Tsai 2005, 1132, 1135–1139; Wank 1999, 116–135.
91. According to an official report, from research conducted by the Research Office of the State Council, the Chinese Academy of Social Science, and the Research Office of the Party School, as of March 2006, at least 3,220 Chinese individuals had assets of 100 million yuan or more, and 2,932 of these people (or 91 percent) were family members of senior officials. See Mo 2006.

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92. Cheng 1989, 474; in an e-mail of September 8, 2006, Cheng referred to “those ‘invisible’ folks who supported their electoral campaigns, financed their journal publications, absorbed their litigation expansion . . . and took care of their families when they were jailed,” explaining that “there were aggregate data and enough circumstantial evidence to allow us to at least hypothesize that the opposition movement was socially embedded in the new middle class—owners and managers of small and medium enterprises.”

93. Shiau 1996, 222.

94. Chen Jie 2004, 87, 130. Chen draws on David Easton’s concept of “diffuse support” to refer to “a person’s conviction that the existence and functioning of the government conform to his or her moral or ethical principles about what is right in the political sphere” and of “specific support” to stand for a person’s “satisfaction with specific policies and performance of the government” (2004, 4).

95. Dickson 2003, 13, 80, 83; Pearson 1997, 92–93, 100; Tomba 2004, 24; Unger 2006, 29, 30.

96. Kennedy 2005, 180; Pearson 1997, 88; Tsai 2007.

97. Wright 2006, 8.