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Journal Title: East Asian policy : an international quarterly.
Article Author: Xiaobo Hu
Article Title: Chinese Democratisation: The Nature and Role of the Middle Class

Journal Vol: 5 Journal Issue: 3
Journal Month: Journal Year: 2013
Article Pages: 57-66
ISSN: 1793-9305
Imprint

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consume more than before, which leads to more consumption of natural resources during the manufacturing process and more pollution to the ecological system. Facing fierce global competition, some countries will lower their domestic standards for environmental and labour protection to lure more foreign fund and lower production costs for export commodities.

China, a country with flawed governance systems and an impatient eagerness to reap benefits from the accelerated globalisation process, had to bear with ecological degrade and environmental pollution simultaneously when billions of dollars of trade revenue flowed into the country.

From 2003 to 2010, China's GDP growth started to accelerate to more than 10% annually, with its output in iron and steel, cement, aluminum and other heavy and chemical industry soaring and fixed asset investment becoming overheated. When Wen Jiabao became premier in 2003, Wen's primary worry was about this economic overheating that put huge pressure upon the country's natural environment and brought about power and raw material shortages. Despite a series of "macro-control" policy measures since 2004, the overheating problem has not been effectively alleviated while the bottleneck in natural resources plus environmental pollution worsens.

In the long run, the Chinese government would do well to introduce more economic incentives and disincentives to curb pollution and ecological destruction instead of relying too much on short-term administrative measures such as closing polluting enterprises or blocking polluting sources. As an emerging economy, China's pollution level may continue to rise until the country completes industrialisation and starts to outsource much of its manufacturing activity elsewhere.

Chinese Democratisation:

The Nature and Role of the Middle Class

HU Xiaobo*

Rapid economic development and a rising middle class have given hope to China's political development. The democratisation history around the world provides clues to the possible directions China's new middle class might be heading in politics. The conservative Chinese middle class is predicted to make China's democratisation more stable than volatile, more gradual than radical. China may experience a long but steady path towards democratisation just like other major democratised countries.

IN THE PAST 33 years, China's gross domestic product (GDP) grew from 364 billion yuan to 40 trillion yuan. During the same period, China's GDP per capita increased from 381 yuan to 29,992 yuan, according to *China Statistical Yearbook*. The economic

* HU Xiaobo is Professor and Director of the Center for China Studies, Clemson University, USA.

miracle and the economic reforms since 33 years ago have produced three groups of the new rich in China.

These three groups are the rich peasants, especially rural families with an annual income of 10,000 yuan during the 1980s; the rich directors and managers, especially entrepreneurs with former government or state-sector positions; and finally the rich professionals and business owners who prosper from the expansion of the market and globalisation. These professionals include engineers, accountants, bankers, salespeople, doctors, lawyers, professors and other urban white collar workers. They are the bulk of the rising Chinese middle class.

As estimates are based on different criteria and measurements, the Chinese middle class typically consists of four per cent to 23% of China's entire population or of 12% to 49% of its urban population. The *McKinsey Quarterly* has predicted that 59% of the urban Chinese population will belong to the upper middle class and another 20% to the lower middle class in 2025.

The middle class that emerged as a consequence of economic development is expected to play a central role in promoting political development, particularly democratisation, in developing and newly industrialising countries. The presumably pro-democracy middle class appeared to be a pre-condition of democracy, for instance, as argued by Samuel P Huntington in his 1991 book, *The Third Wave: Democratization in the Late Twentieth Century*.

In more recent cases, however, researchers find the middle class in developing countries less of an agent for democratisation and more of an opposition to democratic reforms. The middle class in some countries appears to be more anti-democracy when it enjoys a close relationship, which is dependent or collusive in nature, with the state. Such findings have been supported by a list of recent publications.

In more recent cases, researchers find the middle class in developing countries less of an agent for democratisation and more of an opposition to democratic reforms. The middle class in some countries appears to be more anti-democracy when it enjoys a close relationship, which is dependent or collusive in nature, with the state.

Despite a growing literature on China's rising middle class, researchers still have difficulties reaching a consensus on the role and political orientation of the middle class in China. In some instances, the Chinese middle class is supportive of political reform and democratic principles, while in others it is not necessarily so. The political attitude of the middle class is believed to be less important than its interests and relationship with other social groups. A comparative historical perspective of the China case will be adopted for a comprehensive understanding of the rising middle class in China.

Origins of Democratisation

From a historical perspective, the process of democracy includes democratisation and democratic consolidation. Democratization is a process whereby the state and society interact to institutionalise protection of basic rights and representation of public interests. The process was particularly an on-going interaction between the state, old upper class, peasants and new commercialised business class.

In 1966, Barrington Moore Jr published a classic work, *Social Origins of Dictatorship and Democracy: Lord and Peasant in the Making of the Modern World*, which is still widely read by many today. Barrington Moore Jr pointed out in his classic works that different class coalitions among these political players would lead countries onto different paths to modernisation, be it democratic, fascist or communist. In Britain, one of the most stable democratic countries, the upper landed aristocrats made the British democratisation process more complete yet less violent by going commercial and transforming itself into a rising commercial class.

However, according to Moore, the Japanese modernisation transformed a commercial class into a declining samurai class and later to a dependence on the state bureaucracy. Dependent on the state apparatus, the middle class in Japan contributed to suppressive and aggressive nationalism rather than free and liberal democracy.

In 1985, Robert H Bates and Da-hsiang Donald Lien published a seminal article on the origins of parliamentary democracy, titled "A Note on Taxation, Development, and Representative Government". They pointed out in this landmark research that a pro-democracy attitude or force may not be indispensable for a country to start building foundations for democratisation. It was absent in the pro-democracy attitude of King Edward I and the taxpayers who were negotiating on institutional foundations for the British parliamentary system.

Indeed, it had been a consensus that the Magna Charta aimed at preserving the feudal system by striking a balance between the king and nobles had consequently laid down some most important democratic principles for Britain without such an intention. It had been long argued that the United States also started with an elitist and conservative political structure characterised by indirect elections, separation of powers and the "Three Great Compromises" in the US Constitution.

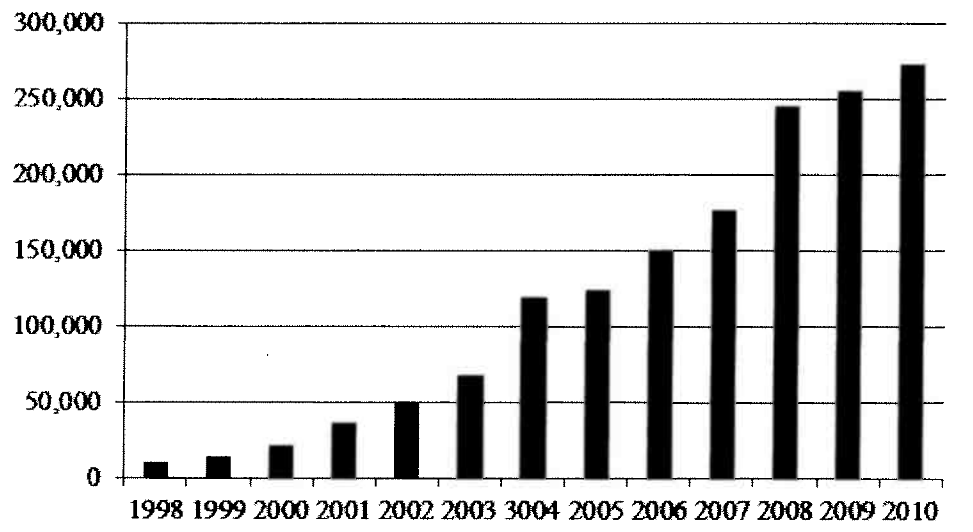
Origins and Conservative Nature of Cadre-Entrepreneurs

In China, the economic reforms in the past 33 years have transformed many of its former cadres into capitalist entrepreneurs. Cadre refers to a government bureaucrat, party official, director or manager of a state-owned enterprise (SOE) or township and village enterprise (TVE).

The population of the middle class ranges from 300 million to 480 million. Among them, there are over 4.68 million private business owners, according to *China Statistical Yearbook*. China's official statistics shows that individual-owned enterprises increased from 330,100 in 1985 to 432,500 in 1990 and 681,700 in 1993. Since then private enterprises have grown much more rapidly (Figure 1).

A recent report, titled *The 2002 Report on China's Private Enterprises*, documented

FIGURE 1 NUMBER OF PRIVATE INDUSTRIAL ENTERPRISES IN CHINA



Source: China Statistical Yearbook

that about a third of Chinese private owners were former government officials or SOE managers. The author's early case studies, titled "Transformation of Property Rights in China: The Institutional Origins", found that about 70% of the small to medium-sized or collective enterprises were sold to the incumbent directors during the last wave of privatisation before the turn of the century. According to the *Survey on Private Enterprises and Entrepreneurs in China*, there were about 59% of private entrepreneurs in 1997 who used to be cadres or SOE managers, and still about 42% in 2008.

These cadre-turn-entrepreneurs constitute an active and influential group in China's middle class, even though the middle class itself is still in the early stage of development and has not been well organised as a whole with clearly defined class interest or agenda.

This group of people acquired their initial wealth through a series of post-Mao reform policies. After the state adopted decentralisation reforms in the mid-1980s, these former cadres started to accumulate their wealth typically by using state funds for personal consumption, including acquiring additional properties.

The decentralisation reforms included profit-retention, manager responsibility system and dual-track price liberalisation. The soft budget constraint in general and profit-retention in particular gave the directors and managers the opportunities to accumulate personal wealth out of state assets earlier on without formally claiming the property rights to these state assets.

After the state started to marketise the economy in the mid to late 1980s, which included promotion of the tertiary sector, these cadres expanded to hold dual positions as state employees as well as business managers in the non-state sector. New rounds of market reforms and privatisation after the early 1990s have further expanded and consolidated the wealth of this group of the new rich.

These dual position-holders acquired state assets for themselves as the new private owners. From the property rights perspective, the former cadres had exercised informal property rights before the state privatised and then sold the state assets to themselves.

Apart from this, influential cadres would be enlisted as the company's board of directors and receive regular commissions in order for the company to reduce transaction costs and avoid political uncertainty as the market then was not entirely open and economic activities were still largely regulated by the sate.

In the late 1990s when the government started to privatise a large number of state and collective enterprises, these cadres worked together to redistribute the lion's share in their favour.

When the government privatised the state assets, the supervising agency of the state or collective enterprise would typically and actively engage in identifying "proper" potential buyers for the enterprise. Not surprisingly, incumbent directors or managers were the first choices of the supervising agency. Again, the private business has been created out of state assets and the entrepreneurial class out of former cadres.

In the late 1990s when the (Chinese) government started to privatise a large number of state and collective enterprises, these cadres worked together to redistribute the lion's share in their favour.

Indeed, the post-Mao reforms have created a new cadre-entrepreneurial group by transferring state assets into the hands of former cadres. From the perspective of class transformation, former cadres have transformed themselves into a rich entrepreneurial class by acquiring state assets to run their own business in the private sector. Preferential treatment by the state has provided the opportunities.

Given their positions, these cadre-entrepreneurs have gained comparative advantages in the economic transition. The reform in the 1980s started to provide job training to these de facto property right holders and future entrepreneurs to make rational and accountable decisions to compete in a quasi-market environment and to accumulate experience that would be useful later when they turn into private business owners.

Contracting, responsibility and dual-track systems then gave these cadres the opportunity to experience risk taking and explore market mechanisms. Through the expansion of informal property rights since the late 1980s, the cadres have been provided opportunities to accumulate private capital and personal wealth.

Cadre-entrepreneurs could enjoy more benefits by either sitting on the board of directors, engaging in jobs other than their own, or establishing new businesses out of state assets. In addition, rural officials and directors had much more flexibility and could even treat collective enterprises as their own family business. In the end, they become the owners of the newly privatised businesses.

Such development of cadre-entrepreneurs and the benefits they have enjoyed in the past 30 or so years have also turned them into a vested interest. They tend to be more conservative about new political reforms for fear of losing the benefits as well as close ties with the current political apparatus they have enjoyed.

The cadre-entrepreneurial group may exist only in a historical phase in China's modernisation. In post-privatisation China, the transformation of cadres into entrepreneurs may not take place in large scale as it happened during the time of privatisation. Nonetheless, cadre-entrepreneurs have become an important force and a rising middle class that will affect future political development of China.

Prospects for China's Democratisation

Democratisation involves a sequence of political changes and much institutional building. Cadre-entrepreneurs are expected to push for only some political reforms given their interest in wealth generation and political stability. Their support for political reforms also depends on their relationship with the state as well as other political players, including other groups within the middle class.

Transformation of cadres into entrepreneurs has been peaceful and such a peaceful transformation over the past three decades or so has generated a new system of mixed economic relationships, i.e.the co-existence of the state sector and the private sector. The state has the control and will try to maintain such a control over the largest enterprises so as to maintain the state dominance over the major industries.

The private sector may not be able to replace the state sector entirely in the foreseeable future. In such a mixed economy, each group will look for its position and edge to thrive. Conflicts are inevitable between the state sector and the private sector. The state itself has the impulse to establish its monopoly, while new entrepreneurs prefer free market access. In addition, the state has its political goals of maintaining political and social stability.

A new cadre-entrepreneurial group built upon and enjoying private ownership that has been peacefully transferred from the state and by the state would also seek political stability. Transformation of property rights has created this new class, leading its political position closer to conservatism rather than liberalism. Conservatism favours economic development under political stability and state protection of individual and national interests.

The cadre-entrepreneurs value highly the newly obtained economic freedom while trying to develop their own distinctive interests. To protect their newly obtained property rights from bureaucratic politics, they have pressed for the rule of law. They have advocated the amendment of Articles 6, 11 and 13 in the Chinese Constitution that recognise and protect personal properties and the private economy. They have pushed for further constitutional protection of private property rights.

The value system of the Chinese middle class has been shaped by the experience it has gained in China's economic and political reforms and by the network needed to strive and thrive in the Chinese market. Although more thorough research needs to be conducted on this value system, the Chinese middle class is believed to share the view that rapid economic development can only be achieved through political and social stability.

While the middle class enjoys business opportunities provided by the economic opening up, it benefits from the preferential treatment it can get from the government more. It can appreciate the opening of the door of success to its members but not equally to all members in society. It values privileged access and limited competition.

Since they have had working experience in the public sector and they understand very well how inefficient and interventional a government agency could be, this group of new businesspeople is very concerned about restraining state power. They cannot tolerate incompetent, secretive or close-minded governance.

They have argued for improvement in quality of government services and restraining government intervention in the market. They would like to see political reform that could produce efficient governance; if local elections could help them to reach such a goal, they would like to give it a try. Hence they can tolerate one-party rule so long as it can deliver steady economic growth and political stability.

Liberal democracy in effect has grown out of the ruling elite's need for more political support from the population. In most western cases, the inclusion of additional ballots expanded gradually, from propertied males, to all males, and then to females; from three-fifths of each black vote to a full black vote.

The cadre-entrepreneurs can hardly be seen as radicals. They have closer ties with the state. They value political stability and therefore oppose any measures, such as periodic and competitive national elections, that would increase political uncertainty or transaction costs in the market. They are sceptical about mass movement or direct democracy. They favour economic openness over political openness.

The cadre-entrepreneurs can hardly be seen as radicals. They have closer ties with the state. They value political stability and therefore oppose any measures, such as periodic and competitive national elections, that would increase political uncertainty or transaction costs in the market.

As far as political reform is concerned, they are comfortable with gradualism from top down and oppose swift changes or any radical redistributive policies. All these seem a limited, elitist democracy, like those initially created in many liberal democratic countries, such as Britain and the United States.

This group may develop new interests and adopt new political agenda in the future, but all these depend on its current and future experience and relationship with other players. The cadre-entrepreneurs have received support from the state and are engaged in a mutually beneficial relationship with the state.

In the state-cadre-entrepreneurs interactions, the state tends to depend more on the latter for political support and implementation of its policy, especially when there are different policy factions competing for such political support. The post-Mao economic reforms characterised by decentralisation, marketisation and privatiation have reflected such a dependency.

Daron Acemoglu and James Robinson in their 2006 book, *Economic Origins of Dictatorship and Democracy,* viewed democratisation as a result of conflicts between the elites and the citizens. They argued that the middle class played an important role of "a *buffer* in the conflict... [by] simultaneously making democratization more attractive for the elites than repression and changing policy enough that the citizens are content not to revolt".

Indeed in China as well, working with the reformers, the cadre-entrepreneurs have helped change the ultra redistributive nature of the communist policy agenda, while China's decades-long development has expanded the benefits of central reform policies from the elites to the middle class.

...the conservative and elitist middle class does not necessarily prevent democracy from making its way into China's political life. British democratisation started very conservatively, if not feudalistically. What is important is the pattern of transformation and class relationship.

On the other hand, the conservative and elitist middle class does not necessarily prevent democracy from making its way into China's political life. British democratisation started very conservatively, if not feudalistically. What is important is the pattern of transformation and class relationship.

In comparison, the British modernisation transformed the upper landed aristocracy into a bourgeois class while the Japanese modernisation transformed a bourgeois class into a declining samurai class and later to a dependence on the state bureaucracy. Britain developed a most stable parliamentary democracy while Japan moved to ultra-nationalism and fascism. China is moving away from communism and developing foundations for democracy in a way similar to what the British did.

Some new research examined the consumption patterns of the new rich in Asia including China and found they have had a positive impact on the state for efficient governance and open competition. This includes Richard Robison and David S G Goodman's chapter on "The New Rich in Asia: Economic Development, Social Status and Political Consciousness" in their co-edited volume *The New Rich in Asia: Mobile Phones, McDonald's and Middle-Class Revolution.* As international travel for leisure or business becomes an increasingly important part of the experience and identity of the Chinese new middle class, what they consume materially and politically cannot be ignored in the study of the prospects for democracy in China.

The Chinese travelling abroad for tourism increased from 4.5 million in 1995 to nine million in 2000 and 32 million in 2005, an increase of more than seven times within a decade. In 2010, there was a record high number of 57.4 million Chinese travelling abroad.

According to Boston Consulting Group's estimates, there would be 25 million first-time Chinese travellers each year, or 70,000 each day, for the next 10 years. This estimate was supported by Chiang Min-Hua in her *EAI Background Brief on* "China's Outbound Tourism" published in 2011. The experience of this growing number of Chinese abroad, especially in those democratic societies, will have a significant impact on their pursuit of political and economic goals back home, especially efficient public services and market opportunities.

Despite their conservative tendency, the cadre-entrepreneurs would become more progressive if the state becomes repressive, which would prompt this group to solicit political participation from a larger pool of the population. The Party has already opened its door to private business owners, which no doubt has strengthened the power and influence of the cadre-entrepreneurs.

Whether the cadre-entrepreneurs can be seen as pro-democracy from a historical perspective also depends on the continual interactions between this group and other social groups. It depends on the historical opportunities provided by such interactions and the political and social demands placed on the state.

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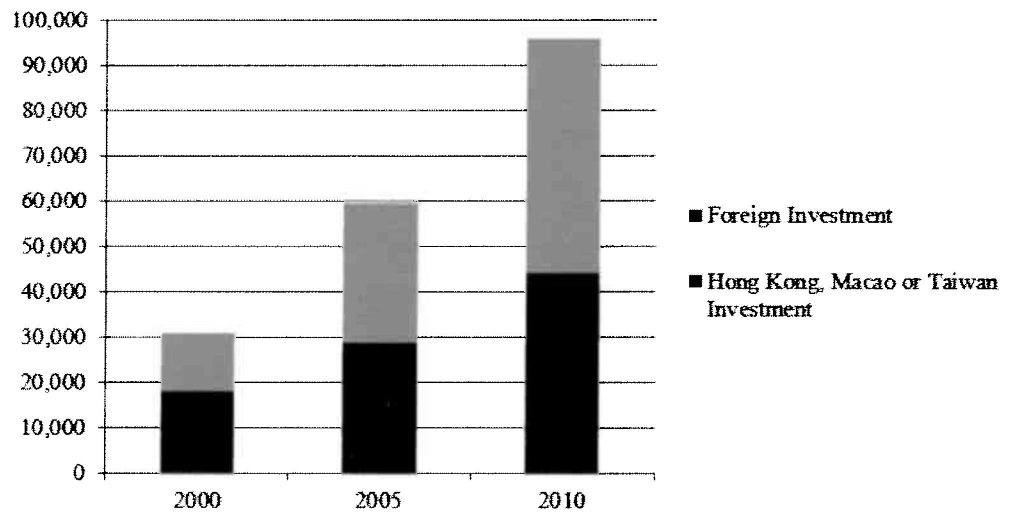
Should there develop a close coalition between cadre-entrepreneurs and the growing, new internationally oriented professionals, there could be a better chance for democratisation sooner. Figure 2 provides a general picture of the growing number of multinational corporations in China, with a total employment of over 29 million people in 2010, which was about 19% of Chinese employment in the secondary and tertiary

FIGURE 2 NUMBER OF MULTINATIONAL CORPORATIONS IN CHINA



Source: China Basic Statistical Unit Yearbook, 2001 to 2011

sectors. The statistics included businesses above a certain level of annual sales, e.g, industrial firms with over five million yuan annual revenue and food service companies with over two million yuan annual revenue.

In Acemoglu and Robinson's 2006 book, *Economic Origins of Dictatorship and Democracy*, they conclude that the size of the middle class has made a difference among five Latin American countries. With a large and affluent middle class, Costa Rica and Colombia have established stable albeit restricted democracies; Guatemala, El Salvador and Nicaragua without this middle class were under dictatorship.

As discussed earlier, China's middle class is predicted to reach around 40% of its entire population in the near future. The growth of China's middle class has been a product of rapid economic development in the past three decades and its further growth will also depend on the continual economic development of China in the next few decades.

Chinese Contractors in the United States

Catherine Yap CO*

A 2009 American Society of Civil Engineers report indicates significant underinvestment in the maintenance and upgrading of US infrastructure. The group estimates a five-year investment of US$2.2 trillion is required. This presents an exciting opportunity for Chinese construction and engineering firms. Because infrastructure work provides long-term economic benefits, if done without controversy, they might generate goodwill towards China and may even help advance Chinese commercial interests in the United States.

CHINA'S EXPORTING PROWESS is well-acknowledged. In 2009, China surpassed Germany to become the world's number one merchandise goods exporter, with a record of US$1,577.8 billion in 2010. Albeit small, China's net direct overseas investment has increased fourfold nominally since 2006, reaching US$68.8 billion in 2010. An important third component of the country's international economic engagement

* Catherine Yap CO is Professor of Economics and Ward Y and George T Lindley Professor at the College of Business Administration, University of Nebraska at Omaha, USA. Complete citations of materials used in this article can be found in EAI's *Background Brief* no. 804.