

The New Rich in China: Why There is No New Middle Class

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Economic reform in the People's Republic of China [PRC] since 1980 has seen the emergence of new categories of wealth and power. Collectively and colloquially these new categories have been referred to as the 'new rich'. They have also been referred to both inside and outside of the PRC as the new middle class (or middle classes) if for different reasons. While there are good reasons for accepting this designation, the evidence from surveys of new rich entrepreneurs conducted since the early 1990s in different parts of the PRC (Zhejiang, Shanxi, Qinghai, Sichuan, and Hainan) suggests caution. In terms of hierarchies of wealth, status and power the new rich not only represent a significant component of the current ruling class, but perhaps, more significantly, highlight the dimensions for the long-term future.

It is clearly the case that there has been massive social change in the wake of rapid economic growth in the People's Republic of China [PRC] since the early 1980s. To take the most obvious example, the creation of wealth on a dramatic scale has meant that the PRC has become very unequal. In 1978 the PRC was a fairly equal society in terms of income, albeit an equality of poverty to some considerable extent. The Gini Coefficient is one of the standard measures of equality where equality is represented as 0 and inequality as 1. In 2005 the

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PRC's Gini Coefficient was about 0.46 and it had become one of the most unequal societies in the world. Regional income inequality grew rapidly away from a principle of self-sufficiency to a position in which the poorest provincial-level jurisdiction (Guizhou) has less than 8 per cent of the GDP per capita of the richest (Shanghai).¹

The prime beneficiaries and the agents of the dramatic economic growth have been a whole range of new entrepreneurs who, in large and small ways, in retail, manufacturing and services, have invented, invested, owned, and managed their way to varying degrees of wealth. Since the late 1980s and early 1990s these entrepreneurs have been increasingly described as China's new 'middle class' or 'middle classes' by academic and more general media commentators outside the PRC.² In the process a parallel is clearly being implied between the PRC's socio-development since the late 1970s and the consequences of industrialisation in Europe over a longer period starting at the beginning of the nineteenth century.

While a rhetoric of convergence between once apparently widely divergent social and economic systems is comforting, and is an oft repeated sub-theme inside and outside the PRC, this assumption of equivalence is also easily rushed. The middle class is not a simple concept but is made up of different elements and is itself often regarded as stratified: one clear reason that reference is also often made to the middle classes in the plural. Interestingly, the middle classes are now generally seen in industrialised societies as the large, middle sectors of contemporary hierarchies of economic wealth, social status and political power, identified as much by their consumption and adherence to style as in socio-economic terms.³

Current conceptualisations of the middle classes are related to, but somewhat different from, the emergence of the concept of middle class and its origins in the European context. Though the concept is necessarily complex it can be broadly reduced to two general and historically determined definitions: the bourgeoisie, and (separately) the managers of the modern state. Starting with the early nineteenth century, the bourgeoisie were a new middle class created by the process of industrialisation. They were the captains of industry whose ownership of the means of production – extraction, processing and

manufacturing activities – drove industrialisation, and they became a middle class because they were neither the landed aristocracy on the one hand, nor ordinary townspeople on the other. As industrialisation deepened towards the end of the nineteenth and beginning of the twentieth centuries, both economic enterprises and the modern state itself became more complex, producing managerial and professional classes. These too were a new middle class because while they neither owned capital nor controlled the state, they served either or both and derived their income and status from service and management rather than ownership of the means of production.⁴

In both cases the significance of these new middle classes is as much political as it is social and economic, if not more. The demand for a widening of the franchise and the emergence of liberal democracy during the first half of the nineteenth century in Northwest Europe are often seen as necessary results of the emergence of the bourgeoisie. The managerial revolution of the first half of the twentieth century is part and parcel of the development of mass society, mass politics and the welfare state.⁵

While the PRC has clearly seen the emergence of new categories of entrepreneurs, the key question is the extent to which these new rich can be identified as the equivalent of the middle classes in other, earlier socio-economic contexts.⁶ There is certainly a much-in-evidence discourse of middle classness to be found in descriptions of social change in the PRC from the outside as well as in domestic self-description.⁷ To some extent and from some perspectives, regardless of socio-economic construction, the assumption of middle class behaviour especially in patterns of consumption is not just reasonable, it is also to be expected as a function of globalised commercialisation. Gucci, Loewe and Louis Vuitton are brands targeted at the wealthy consumer in Shanghai and Beijing as much as in Milan, London and New York.

At the same time there is room for caution lest too much is read into the PRC's processes of social change. Identification of middle class behaviour in the contemporary PRC does not necessary entail an equation with earlier middle classes in other societies, and it is clearly just as necessary to isolate differences as well as similarities.

In particular, there are three aspects of the emergence of the PRC's new rich categories of entrepreneurs – which separately highlight their relationship to social status, economic wealth and political power – that suggest they are less a new middle class than a future central part of the ruling class. In a sense the PRC had a managerial revolution before a bourgeois revolution (though of course history does not start in 1949) with the creation of managerial and professional classes as part of the development of the modernising state during the 1950s. Certainly the entrepreneurs of the post-1978 era include not just the comfortably well-off but also, more dramatically, the rich and the super-rich. At the same time they have been and remain unlike the European bourgeoisie of the first half of the nineteenth century in the extent to which they have emerged from, and have close organisational relationships with, the established political system.

The PRC and the Middle Class

It is considerably easier to regard the new rich of the post-1978 PRC as equivalent to a contemporary European or North American middle class if modernisation is dated only from the post-Mao era. However, the sustained economic development experienced since the early 1980s is not China's first taste of modernisation. Though modernisation is clearly a contested concept, in broad terms it is possible to identify three eras of industrialisation and modernisation in China's twentieth-century experience.

The Republican Era saw sustained attempts at modernisation in various parts of China under both warlord rule and colonial influence.⁸ This included the development of the iron and steel industry, large scale coal mining, a machinery industry, a textile industry, financial institutions, shipping and railways, as well as an exceptionally large cigarette industry. Largely because much of this economic activity was externally sourced, owned or supported, by the early 1920s some of China's various economies were considerably better integrated into the world economy than was later to be the case from 1937 through to 1978.⁹ Even mountainous counties some distance from the coast, such as Liaoxian in North China's hinterland (on the

borders of Shanxi and Hebei Provinces), were supplying products to external markets by the 1930s.¹⁰

Of probably greater importance to understanding the most recent political economy of change, the establishment of the PRC, once the new regime was secured, ushered in a renewed and sustained industrialisation and modernisation after the dislocation of the 1930s and 1940s. The years from 1952 to 1978 were not without their economic problems, notably during the early 1960s when the economy threatened to implode in the wake of the Great Leap Forward, or during the height of the Cultural Revolution when production was impeded. Nonetheless, the PRC economy achieved an overall six per cent per annum growth rate throughout the Mao-dominated era.¹¹

At the heart of this growth was the development of a modern state, including the construction of communications networks and the provision of education, health and welfare infrastructure, if more focused on the urban than on the rural areas. Certainly the bourgeoisie and generally the large scale owners of property were dispossessed during a series of campaigns designed to ensure the socialisation of the means of production during 1952–55.¹² At the same time the 1950s saw the growth of managerial and professional occupations in the service of the new state and of its administration and economic management. This involved people who in many ways can be regarded as the backbone middle classes of the PRC: though that is clearly not a term that would have been employed in the PRC itself during an era dominated by the ideological formulations of Marxism-Leninism-Mao Zedong thought. They were, and to a large extent still remain, both socially and individually, officials who were the instruments of the state and capital as opposed to strategic decision-makers or front-line producers.

The establishment and development of the new state required a sizeable force of officials. While considerable attention always focuses on the cadres, and leading cadres at that, who peopled the Party-state, the new bureaucracy also engendered a large army of lower order officials and administrators, referred to in Chinese as 'petty cadres' (*xiao ganbu*).¹³ To a large extent these petty cadres were the essence of the bureaucratic state established by the Chinese Communist Party

[CCP]. The more senior cadre positions were most usually filled by those who had joined the CCP and the revolution before the end of the War of Resistance in 1945. As the Communist movement grew during the Civil War these individuals attained positions of leadership which then transferred to the new state in and after 1949 as the CCP expanded from North and Northeast China to occupy the whole of the country, and they effectively became the new ruling class.¹⁴ Under their leadership the Party-state not only had responsibility for state administration and regulation of social life, but also provided social and welfare services, and ran the economy. Economic production was completely state directed even though only part of the economy was managed immediately through government departments. The officials, administrators and managers who staffed this extensive bureaucracy were initially during the early 1950s hired locally and, while that practice continued, it was supplemented by the allocation of university students on graduation to positions anywhere in the PRC.¹⁵

Alongside, and sometimes overlapping with, the bureaucracy of state socialism the new state also ensured the further development of the professions, which expanded way beyond their beginnings in the Republican Era. Teachers, doctors and engineers were the most numerous as the modernising state expanded its activities and reach. At the same time the 1950s also saw the emergence of career paths for other professions including lawyers and economists, albeit heavily politicised. These intellectual middle classes were precisely those who were criticised during the Cultural Revolution in the late 1960s for having become the 'stinking ninth category of counter revolutionaries'. Many lost their positions and possessions, at least temporarily until the 1970s, were sent to the countryside or the front-line-of-production for 're-education' and some were physically abused.

The PRC's drive for further industrialisation and modernisation after 1978 appealed to, and to some extent relied on, these managerial middle classes and their families. Just as the reputations of leading cadres removed during the Cultural Revolution, and sometimes the individuals themselves, came for the most part to be gradually

restored through the 1970s, so too middle-class reputations rose again. The process of restoring their positions in society and employment had already started well before Mao's death in September 1976. However, the late 1970s saw a more complete and explicit restoration, often including the payment of reparations. Education and training were generally put back on the agenda by the Party-state as it sought economic growth, and the various types of professional knowledge and expertise were to be once again mobilised to the PRC's developmental goals.

Entrepreneurs and enterprise development

The identification of professional and managerial middle classes in the PRC does not necessarily mean that the entrepreneurs to have emerged as a result of the economic reforms introduced since 1978 are not also middle class. It does however require that they be examined as such more closely both in terms of the PRC's development and in the wider comparative context. In particular it draws attention to the specific characteristics of the new entrepreneurs as a middle class, and their relationship to the professional and managerial classes. Clearly these two broad social categories may have much in common, not the least of which is a shared set of life-style aspirations, including living in one's own house, having a car, ensuring private education for one's children, and engaging in leisure time activities that may include holidays elsewhere.¹⁷ It is also possible that members of the pre-1978 professional and managerial middle classes transformed themselves into new-style entrepreneurs during the 1980s. At the same time acknowledgment that there has been, and remains, a state-sponsored professional and managerial middle class does suggest that the new entrepreneurs may not only be a different kind of middle class but also that the processes of middle class formation and conceptualisation in the PRC may be somewhat different from those that occurred in the earlier European context.

Since the early 1990s, a series of interviews of entrepreneurs have been undertaken in different parts of China. These have included surveys in Hangzhou (1991–93), Shanxi Province (1996–98, and again

2000–02), Qinghai Province (2001–03), Jiaocheng County, Shanxi (2003–04), Qiongsan City, Hainan (2004), and Mianyang City, Sichuan Province (2004–05).¹⁸ Entrepreneurs have been asked about their social backgrounds (and that of their families), their careers and their entrepreneurial activities. In terms of middle-class formation, there are three clear conclusions highlighted in each set of interviews. The first is that the new entrepreneurs are a complex and not a simple social category, including not only owner-operators in the private sector but also managers of state-, collectively-, privately- and foreign-owned enterprises, as well as oftentimes confusing combinations of these various sub-categories.¹⁹ The second relates to the wealth of the new entrepreneurs. While there were some disastrously unsuccessful entrepreneurs and others who were only of moderate wealth, many were not just comfortably well-off by the standards of their local economy when interviews were conducted, but were clearly the rich and the super-rich. This conclusion draws attention to the parallels between the contemporary new entrepreneurs in the PRC and the nineteenth-century European bourgeoisie. The third overall conclusion limits such arguments by highlighting the close institutional and associational links between the new entrepreneurs and the Party-state: they are neither independent of nor excluded from the political establishment, which on the contrary seeks actively to incorporate them.

The notion of any *ab initio* industrialisation in the PRC since 1978 is rapidly dispelled by consideration of the processes that generated new entrepreneurs in the reform era. The model of a single individual who has an idea, seeks capital, and establishes an enterprise to develop an invention or innovation is only broadly applicable in the PRC.²⁰ Broadly speaking, the new enterprises that have emerged during the last three decades have emerged in one of four ways, differentiated by source of the initial capital and resources.

Historically, the introduction of greater measures of market determination and the development of new types of enterprise started in the rural areas, or more accurately the sub- and peri-urban rural districts of cities. Through the 1980s and 1990s town and village enterprises [TVEs] became the mainstay of the collective sector of the

economy, and grew out of rural economic activities and perceptions of spare labour or other forms of under-utilised capacity.²¹ In the Hangzhou area one village transformed its machinery workshop, which had access to wire products, into a production line for using wire to produce elaborate gift cards for the Japanese market. It was soon so successful that the production line became a large-scale factory and the village ceased agricultural production. In Yuci (in Shanxi Province) another village agricultural machinery workshop turned to aluminium radiator production; in Yingchuan (also in Shanxi), surrounded by coal-mining, coal by-products, particularly plastics, were produced. These enterprises and their development were led by local individuals, often the former workshop manager or some other level of local leader, who were able to mobilise their fellow villagers. Though technically managers and not owners of the TVEs, many behaved economically, socially and politically as if they were.

The state sector of the economy saw similar processes at work. The previous system of state socialism had been characterised by large-scale production and inherent economic inefficiencies. Increasingly after 1984 economic reform inevitably resulted in managers seeking economic efficiencies and, partly in consequence, new opportunities to use the assets they controlled. In a variety of ways state assets were developed or built on to produce an economic return. Often subsidiary companies operating in the collective sector of the economy were established by the state-owned enterprises or departments of the state administration.²²

In North China an iron and steel works at the start of the reform era was a complex organisation that, like other large scale state owned enterprises at that time, attempted to meet most of the social and welfare needs of its workforce and their dependents. The enterprise had canteens, farmlands to supply the canteens, and trucks to transport the agricultural produce to the canteens. Before reform little attention was paid to the low level of economic activity generated by the canteens or the trucking department since they fulfilled their allotted tasks of feeding the workforce and transporting produce to the canteens once a day. With reform each of these activities was hived off as a separate company, technically owned by the parent state-

owned enterprise, but under the control of the previous management who had been assigned to the new collective sector enterprise. Each was provided with a contract to provide services as before but now, in order to survive, they also had to find additional money-making work in the open market. In Hangzhou, the now PRC-wide famous *Wahaha* drink and food company was born from the non-profitable print shop of a secondary school when its managers realised that to survive they had not just to diversify but to find new economic activities.

Though many of the collective sector enterprises were established by state-owned parent enterprises, the reallocation of state assets in these ways also sometimes left less than clear distinctions between ownership and management. State sector enterprise managers who led the way in reforming their companies clearly remained as managers whatever their level of emotional investment in the newly developed undertakings. Managers of new collective sector enterprises that had grown out of state assets on the other hand often, like their semi-rural counterparts, behaved in many ways like owners. In Hangzhou on one occasion one such entrepreneur was asked if the state assets that had been effectively reassigned to his new-style enterprise had been repaid in any way. The response was clear: 'There's no need. These were previously All-people's assets and we are the people'.

There certainly are private sector owner-operators who have developed their businesses from nothing based on an innovative idea or perceived market opportunity.²³ In the various surveys undertaken since the early 1990s they have been found in all industrial sectors and activities, including mining and heavy industry, as well as light industry, processing, retail and service industries. In general most private sector owner-operators remain small-scale. As their business grows and they wish to scale up, the pressure for access to factors of production – investment capital, land, labour and political permission – essentially dictates that successful private entrepreneurs have to surrender part of their equity to local government and accept incorporation as collective sector enterprises. As with TVEs and those companies that have developed from within the state sector

and state administration, the potential for confusion over ownership and control is often high.

In Hangzhou during the late 1980s a disgruntled workshop technician left his job to branch out on his own, reckoning that even if his income went down he would be happier working for himself. He established a series of bee-hives and produced honey and sold it himself to local restaurants and hotels. After two years he had managed to pay off his debts and save some capital so he decided to establish his own restaurant. This in turn was a great success, leaving him after three years with capital to invest further in a new undertaking. Thinking he would like to move into manufacturing, he looked around for a product, finally deciding to establish a food-processor manufacturing plant. (He had found the machine mentioned in the translation of a Graham Greene novel and not knowing what it was had investigated further, and realised that there was, or would probably be, a market in China.) Unfortunately as a private entrepreneur he had no access to bank loans and had been denied land to build his factory by the local authority. It was not until he accepted the invitation of the local government to cooperate (and surrender half his equity) in the development of a new collective sector enterprise that he was able to proceed.

In Jiexiu County, Shanxi, Li Anmin, now President and General Manager of the Antai International Enterprise Group Company, and one of the province's richest individuals, established a coke production company as a private enterprise in 1984. He had been the village accountant in his home village and invested 3,000 *yuan* RMB of his own money, employing 27 of his neighbours. Within ten years the enterprise had become a collective stock company through cooperation with local government and equity from Li's fellow villagers. By the mid-1990s the company had expanded into other activities, including cement, clothing and retail, employing 3,500 people.²⁴

The fourth and final way in which new enterprises have been established is through foreign investment. The scope for foreign investment has been episodically increased since the mid-1980s, leaving relatively few areas of the economy totally restricted though regulation remains high. From milk production in Shanxi Province,

to luxury wool production in Qinghai Province, to manufacturing in Jiaocheng (Shanxi) and Hangzhou, and retail and services in Qiongsan (Hainan Province), foreign investment has occurred where there are economic opportunities and known relations to the local economy. Somewhat confusingly, state sector enterprises, TVEs, collective sector enterprises, and private companies have all established joint venture operations with external partners. There is equally a variety of ownership relationships attending these foreign-funded enterprises. Though all have entrepreneurial managers, in many cases they are not the originators of the idea leading to cooperation.

Entrepreneurs and wealth

Estimating the wealth of the PRC's entrepreneurs is not an easy task. Most have proven themselves understandably somewhat reticent to discuss their wealth at interview. As with business people almost universally, there is a tendency to minimize income and earnings because of taxation or local fee regulation. The political climate for business people has certainly improved over the years, and dramatically since the first interviews were conducted in 1991, before Deng Xiaoping had undertaken his 'Inspection Tour of the South', which reignited the pace of economic reform the following year.²⁵ Nonetheless, the PRC remains a Communist Party-state governed by an ideology which has within recent memory come down very hard not only on business people but on individuals engaging in economic activities for personal profit. All the same the available evidence would seem to suggest the new entrepreneurs occupy a position of considerable wealth.²⁶ Their patterns of conspicuous consumption were already becoming apparent during the 1990s, in housing, private education for their children, clothing and food.²⁷ Anecdotaly, these seem to have increased dramatically since 2000, particularly in the growth of leisure activities in the metropolises of Guangdong, Shanghai, Tianjin and Beijing.

Although the entrepreneurs interviewed have generally been reluctant to provide details of their income or earnings, during

research in Shanxi in 1996–97 some four in five of those questioned were prepared to estimate their monthly cash income: salary plus bonuses, and additional payments. Table 1 provides details of average estimates adjusted to an annual basis and differentiated by categories of entrepreneur and enterprise ownership or management. Members of the professional classes (mainly doctors and lawyers) were interviewed as part of the same research, and their average annual cash income is also provided, together with the provincial average income per capita for 1997.

Table 1:
Entrepreneurs' cash income: Shanxi Province, 1996–97.
 Yuan RMB (Renminbi)

Category of entrepreneur	Annual cash income
Manager, State-owned enterprise	18,627
Manager, collective sector enterprise	17,388
Owner, private enterprise	37,200
Manager, foreign-funded enterprise	18,000
Professional	3,700
Provincial average income per capita (1997)	4,762

Source: Interviews, Shanxi 1996–97 (47 managers, state-owned enterprises; 56 managers, collective sector enterprises; 51 owners, private enterprises; 7 managers, foreign-funded enterprises; 11 professionals).

The differences in average earnings between the various categories of the new entrepreneurs and ordinary people indicated in this table are clearly large. Owner-operators in the private sector would seem to have cash earnings almost eight times the provincial average income per capita, and other categories of the new entrepreneurs earn just under four times the provincial average. In Hangzhou in the early 1990s the differences between the new rich and the provincial average was estimated at about 12:1 so these ratios are somewhat lower and may be accounted for by the earlier stage of development of the Shanxi Provincial economy, which had considerably less foreign investment and light industrial development.

Necessarily these figures have to be treated with caution, not simply because of the methods of data gathering, but also as indicators of wealth. Business people often have cost-less (to them personally) access to resources and effectively subsidised income not available to others. Under state socialism, and even under state socialism in transition, similar benefits of food, housing, education, access to transport (especially use of cars), and holidays also applied to almost all those working within the Party-state. It is, for example, extremely unlikely that the professionals interviewed during 1996–97, whose average cash earnings are reflected in Table 1, would have had a lower than average standard of living, and they would be more likely to share the life-style aspirations of those they came into contact with within the Party-state if not across all the categories of new entrepreneurs.

Another way of attempting to estimate the wealth of the new entrepreneurs would be to consider the flows of money that they control and are ultimately responsible for. Table 2 provides details of information revealed through interviews with entrepreneurs in Shanxi (1996–98) about enterprise profits after tax, and in Qiongsan (2004) and Mianyang (2005) about annual enterprise turnover. The figures for each locality are contrasted with the appropriate local average income per capita at the time the interviews were undertaken. While the figures presented in Table 2 must also be treated with caution, they do serve to underline the key position of the new entrepreneurs in terms of wealth creation, and to indicate considerable disparities in terms of at least wealth management between entrepreneurs and the rest of the population.

Of course this is not to argue that all entrepreneurs are fantastically wealthy. Those who have been interviewed over the years include a number on the edge of bankruptcy, and at least one once private entrepreneur who was being bailed out by the local government because he was a large-scale employer whose business was in trouble. Others were simply not successful or just ran very modest businesses. Typically, single retail outlets, beauty salons and one-person service industry activities were private enterprises of a small business type to be found almost universally around the world. The averages

detailed in Tables 1 and 2 are derived from a range of earnings and turnover. The Shanxi 1996–97 interviews, for example, found a private entrepreneur whose annual personal cash income was estimated as low as 3,000 *yuan* RMB, and several others with estimated cash earnings in excess of 70,000 *yuan* RMB.

Table 2:

Indicators of economic scale: average enterprise profits or turnover
Yuan RMB

Location	Date of interviews	Average income per capita		
Shanxi	1996–98	4,762 (1997)	Average enterprise profits after tax	Yuan RMB million
			State enterprises	24.3
			Urban collectives	29.8
			Rural collectives	4.2
			Private enterprises	0.3
Qiongsan	2004	12,697	Average enterprise annual turnover	24.0
Mianyang	2005	8,383	Average enterprise annual turnover	58.0

Source: Interviews, Shanxi 1996–98 (230 interviewees); Qiongsan, 2004 (53 interviewees); Mianyang, 2005 (56 interviewees).

Entrepreneurs and the Party-state

By any standard, economic development in the PRC – whether in the 1950s or later in the 1980s – fits well into the pattern of late industrialisation identified as having been established by Germany, Japan and Russia during the late nineteenth century. In these countries the state played a central role in industrialisation, as opposed to the *laissez-faire* capitalism of the earlier European experience based on the protection of the role of the individual outside the state.²⁸ With very few exceptions²⁹ most research on the socio-economic changes of PRC reform since 1978, and particularly that related to industrialisation³⁰ highlights the centrality of the Party-state in generating change.

Debate centres on the extent to which the Party-state is itself involved in entrepreneurial activities, as opposed to supporting the economic activities of enterprises and entrepreneurs.³¹

The relationship between the new entrepreneurs and the Party-state is generally very close, though in a number of different ways. Quite apart from the delivery of the policy settings that have made change possible and the government arrangements at the local level that support such development, many of the enterprises for which they are now responsible have grown out of Party-state activities. Where new entrepreneurs did not already participate formally in the activities of the Party-state, particularly at leadership levels, they have now found themselves fully incorporated; and many new entrepreneurs would appear to depend on family networks of influence grounded in the Party-state. Remarkably, these networks of relationships and influence even extend to small-scale business people in the private sector of the economy.

As already indicated in the description of the processes of enterprise development during the reform era, it is clear that a large proportion of the new companies have either emerged from the Party-state or have become subject to close local government involvement as they have grown. Ownership relations may be complex and confused, but the continued growth of the subsidiaries of state sector enterprises, state administration-run economic activities, as well as of a collective sector whose theoretical status is long since challenged, provide ample evidence of the continued importance of the economic relationship between the new entrepreneurs and the Party-state outside of the formal plan. For the last decade it has certainly seemed more sensible to regard the collective sector of the economy as the local government sector, rather than, as was previously the case, that part of the PRC state economy not fully regulated by the central planning process.

One of the consequences of the growth of the collective sector is that the ranks of the new entrepreneurs contain many who have come directly from the professional and managerial middle classes. In the Shanxi Province interviews of 1996–98, 72 per cent of the state enterprise managers interviewed had come from a professional or managerial career, as had 79 per cent of the managers of urban

collectives, 62 per cent of managers of rural collectives and 42 per cent of private enterprise owner-operators. In interviews with women entrepreneurs in Jiaocheng (2003–04), 19 per cent had previously been employed in professional or managerial work. Of the women entrepreneurs interviewed in Qiongsan (2004), 19 per cent had a similar background, though in Mianyang (2004–95) the figure was 36 per cent.

As might be expected, given both the structures of state socialism and the ways in which enterprise formation has occurred, a substantial proportion of those working professionally or managerially before becoming entrepreneurs had been employed within the Party-state. At the same time, as already noted, it has been possible for private entrepreneurs to establish themselves independently and to develop their business activities quite successfully before being required to cooperate with local government or other arms of the Party-state if they desired to maintain a growth trajectory. One of the costs expected of private entrepreneurs following this path is that they will take up the challenge of local leadership positions. Often the deal is quite explicit. One coal mine developer in Shanxi told at interview how he not only had to surrender half his equity to the local (county) government in order to be permitted to establish his enterprise (although he argued that the company in his view remained private and his property) but he had to be prepared to join the CCP (which he had steadfastly refused to do up until that point) and to hold a leadership position on the county CCP committee.

The requirement on the new entrepreneurs is not always so formal or to fill such an important leadership position within the Party-state. Certainly there has been a growing imperative for successful business people to join the CCP, and indeed one of the key aspects of Jiang Zemin's principle of 'The Three Represents' was the recognition that business people should be both able and encouraged to join the CCP, for the first time since 1955.³² Most of those who had started out as small scale private entrepreneurs and grown their business through cooperation with local government would have subsequently been expected to join the CCP, though not necessarily to assume positions of leadership. At the same time there are other ways in

which successful new entrepreneurs are encouraged to participate in and support the Party-state, notably through being recognized as provincial and national model entrepreneurs and having their experiences well publicised for emulation through the media, as well as being elected as deputies to county, provincial and national people's congresses. Amongst those interviewed many had been feted as model entrepreneurs. There were several who had been elected as deputies to provincial people's congresses and two who had been elected to the national people's congress: a one-time university bio-chemist who had returned to his home town in Shanxi to establish an enterprise based on developing coal by-products; and the man who had led the development of the luxury wool processing industry in Qinghai Province.

Although it would seem logical to assume that many of the enterprises to have been established in the era of reform are owned or established by leading cadres, or at least that leading cadres engage in such processes, the evidence of the various interviews undertaken since 1991 is that this, almost totally, has not been the case. While it is conceivable that the methods of interviewee selection would have largely precluded the possibility of encountering leading cadres as entrepreneurs, the amount of time spent in fieldwork in given locations and the degree of familiarity developed would have most likely provided some pointers and information to activities of that kind had they been present. There was no such anecdotal evidence generated.

At the same time though it would appear to be the case that family ties to leading cadres in the Party-state do appear to be important to the process of enterprise formation. The evidence from the Shanxi Province interviews undertaken 1996-98 is that there is a definite three-generation pattern. Leading cadres are on the whole recruited on intellectual merit from amongst the peasantry, as has long been CCP practice under the PRC. They do their jobs and retire but it is their children who go on to become business people, in particular building on the local relationships and networks of influence that their parents have developed.³³ As one entrepreneur, who had developed a medium-sized iron and steel plant on a green field site in

the locality where his father had been CCP secretary for many years, said at interview, when asked about why he had joined one of the state sponsored democratic political parties and not the CCP, 'Why should I join the CCP? My father owns the village'.

Certainly, all the interviews suggest quite strongly that while it is not necessary for the new entrepreneurs to be CCP members themselves, it is extremely helpful for their families to have been members of the CCP and to have been part of the Party-state. Even allowing that the samples chosen for the interviews cannot be held directly representative of either the population as a whole or even necessarily of the entrepreneurs in each locality, the proportion of those whose families were linked into various networks of influence of this kind is too high to be ignored. Currently about 5.4 per cent of the total population of the PRC are members of the CCP, though the proportion was somewhat lower during the 1990s.

In the Shanxi 1996–98 interviews, 60 per cent of the private enterprise owner-operators were not members of the CCP themselves, but 39 per cent had at least one parent who was; 35 per cent of the 'managers' of collective sector enterprises were not themselves members of the CCP but again 39 per cent had at least one parent who was. Similar proportions are to be found in the other interviews. In Jiaocheng in 2003–04 only 24 per cent of the entrepreneurs themselves were either members of the CCP or had some other direct connection to the Party-state, as opposed to 42 per cent of their fathers. In Qiongsan (2004) similarly only 23 per cent of those interviewed were members of the CCP or had a direct Party-state connection, compared to 40 per cent of their fathers. In the Mianyang interviews (2004–05) the proportions were somewhat higher: 35 per cent of those interviewed were members of the CCP or directly involved in the Party-state, while 50 per cent of their fathers were. In the Jiaocheng interviews 58 per cent of those interviewed had either a father or a father-in-law (the interviewed entrepreneurs were all women) who was a member of the CCP; in Qiongsan the proportion was 55 per cent, and in Mianyang 66 per cent.

New entrepreneurs and the middle class

Inevitably social change in the PRC is both *sui generis* and reminiscent of processes that have occurred in other political systems. The complications, from a comparative perspective, in analysing the PRC is that the starting point for recent change has been a late industrialising state socialist system that has chosen to introduce market reforms. Ownership, management and control are intertwined in ways that cut across previous analyses of middle (or indeed any other) class behaviour.

On the one hand, the new entrepreneurs are not a new middle class because there has been a long established professional and managerial class. While many come from managerial backgrounds and occupy positions that revolve around their control of enterprises, many have a far greater emotional investment in their own personal position in the enterprise than this term usually implies. Nor for the most part do new entrepreneurs generally represent the middle income sections of the population. On the other hand, to the extent that a rising middle class may act with economic development to become the backbone of the ruling class, then it is possible to see similar processes in formation in the PRC. The difference of course is that the PRC remains a Communist Party-state and that the new entrepreneurs far from being excluded have been targeted for incorporation into the political establishment.

These observations highlight the objectives of the various discourses of middle classness to be found both inside the PRC and outside. Within the PRC there is a clear ideological constraint in promoting and wealth economic growth, even as the third decade of such policy settings draws to an end. Promoting the new entrepreneurs and the new rich as the new middle classes is somewhat more egalitarian and certainly generally more acceptable than describing them as the super-wealthy or the new bourgeoisie.

Encouraging the development of the new middle classes is also generally a way of promoting individual initiative and self-driven economic growth, as well as wealth creation. In society as a whole it is probably more comfortable as well as generally more acceptable

for individuals to articulate their middle class aspirations than those of being an A-list mega-star. Certainly specifically described middle class aspirations can be portrayed as, and allied to, modernisation and desirable life-styles through the mass media of communication.

Outside the PRC it does sometimes seem that those who are attempting to interpret its development really do want to be able to find the middle class in its contemporary social change. While a full explanation of that phenomenon lies elsewhere, one clear possibility is that the PRC's transformation is seen as hopeful by those who see an equation between industrialisation and economic development on the one hand and the emergence of a peace ensuring liberal democracy on the other. The argument that these are people 'just like us' is very seductive, especially if it is delivered without any hint of irony.

Notes

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