Money and Power: Balancing Party Priorities in China

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March 15, 2015

ABSTRACT: The Communist Party of China has balanced economic liberalization and political control ever since beginning reforms in 1978. This paper will trace this tradeoff between free markets and political control over several episodes in recent Chinese history. Finally I will assess the current balance in light of Xi Jinping's anti-corruption campaign and the new challenge of capital flight under free capital markets.

I. Introduction

Control over the productive capacity of capital has been a central concern of the Chinese communist regime since its founding. After brokering a deal with the national bourgeoisie, the regime under Mao moved swiftly to consolidate total control over the economy by banning private enterprise and initiating collectivization. Following twenty years of the disastrous policies of the Great Leap Forward and the Cultural Revolution, the death of Mao offered an opportunity to revive the economy by allowing more private management. The party-state decided to permit the privatization of small and medium sizes state-owned enterprises (SOEs) to increase productivity and reform these failing businesses. Much of this liberalization occurred at the provincial level and below, which permitted efficient business expansion in the best cases, but also allowed substantial corruption in the desperate drive to meet economic growth targets and derive personal gain. Jiang Zemin's policy of the Three Represents formally recognized the legitimacy of private business by inviting the "new class" of technicians and entrepreneurs into the party. Under this more liberal economic regime, preserving control over business has proven increasingly difficult as shown by the ineffectual role of Party cells inside of businesses. The resulting division of power within the economy preserves substantial central control in the very large enterprises under control of SASAC, otherwise permitting free market operations. The private sector is now more profitable than SOEs, and private business provides almost all new employment. Further liberalizations, such as Chinese FDI abroad and the convertibility of the renminbi challenge the ability of the Chinese regime to maintain control over free moving capital. Cracking down on corruption while preserving the growth and stability of the Chinese economy are the challenges confronting Xi Jinping and the Chinese Communist Party today.

2. The Mao Era: Total Control, Economic Disaster

The almost absolute control of the economy during the Mao era forms the baseline from which the changes in economic policy and private business opportunity have diverged. At the local level, Party branch leaders were the decisive authorities for both economic planning and the implementation of state policy. Party officials were responsible for gathering the grain quotas, levying taxes, and even micro-managing the work hours, housing options, and rations under the work-unit system.[1] Marxist orthodoxy viewed private ownership, and especially employment of others for wages, as an inefficient form of exploitation. Collective labor under state ownership was believed to offer the possibility for productivity exceeding capitalism. Deviations from this illusory ideal were attributed to the subversion of individual profit seeking or the sabotage of members of the bourgeoisie aspiring to turn back

[1] Chen, An. "How Has the Abolition of Agricultural Taxes Transformed Village Governance in China? Evidence from Agricultural Regions." The China Quarterly 219 (2014): 715-735.

the revolution. Private business was viewed as a corrosive relic of capitalism, and the coercive power of the Party apparatus was mobilized to stamp it out of existence through collectivization and ideological surveillance. The subsequent post-1978 reforms can be judged according to how they have deviated from this original central control: how private business enterprise has been permitted to operate independent of Party dictates, and how the political control of the Party has been preserved by co-opting the rise of business operations.

Totalitarian control, reaching into the smallest details of local economic life, proved disastrous in China. By the end of the Cultural Revolution and the death of Mao in 1976, the economic well-being of Chinese citizens was worse than during the 1950s and the normal functioning of government had been almost totally disrupted. Voices that doubted the efficacy of Mao's policy were marginalized or persecuted. The need for private business to fill in the deficiencies of the state controlled economy prompted individuals and local officials to broker deals with business owners even before the practice was officially authorized. Due to the stigma and prohibitions against capitalist enterprise, many of the first Chinese citizens involved in small business were criminals, outcasts, or people desperate enough to ignore the risks and dishonor.[2] Fiscal decentralization freed up local governments to determine their own budgets. Despite public mistrust and official discrimination, private business found many opportunities to expand during the 1980s. By the time Deng Xiaoping declared the "socialist market economy" in 1992, the benefits of private enterprise to the Chinese economic had become clear and indispensable.

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[2] Wright, Teresa. Accepting Authoritarianism: State-society Relations in China's Reform Era. Stanford, Calif.: Stanford University Press, 2010. 120.

3. Privatization of State Owned Enterprises: More Efficiency, More Corruption

In order to further encourage the economic benefits of private enterprise, fundamental reform of the state owned sector was required. Competition from private firms had reduced the profit margin in SOEs, their debt to equity had risen unsustainably through borrowing to cover losses from operations, and revenues for expensive benefits to workers could not longer be sustained. According to communist ideology, permitting the private purchase and control of capital was unthinkable. Therefore, rather than referring to the new arrangements as "privatization", euphemisms such as "restructuring" were utilized instead. Additionally, because the formal transfer of ownership was accomplished through the transfer of controlling shares, the actual ownership and control of the enterprise was often difficult to ascertain.[3] Private ownership could be concealed under an appearance of collective enterprise. Local officials, whose careers depended upon increasing economic growth, had clear incentives to support the privatizations. While facilitating the ownership transfers, these officials would also be able to establish connections with the private sector and personal relationships with successful and wealthy entrepreneurs. The business partners would also provide capital needed for local infrastructure, and jobs for the local population. Political control was preserved and economic growth stimulated by encouraging these alliances between local officials and the rising entrepreneurial class.

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[3] X.L. Ding (1999) Who Gets What, How?: When Chinese State-Owned Enterprises Become Shareholding Companies, Problems of Post-Communism, 46:3, 32-41

While the privatization of SOEs did provide the increase in productivity and therefore jobs and economic growth that the Chinese state required, the novel and weakly monitored transformation also created the foundation for massive corruption. The most direct methods of corruption, such as bribery and embezzlement, were widely used to preferentially distribute ownership and control of enterprises to people outside of the enterprises themselves. Within the organizations, insider control provided additional mechanisms for managers to take control of state companies and their assets. The value of the company and its holdings, for example, could be deliberately undervalued, so that the company and its ownership shares could then be sold for a suppressed price. Concealing the revenues or assets of the enterprise, or inflating its expenditures and liabilities, could also artificially reduce the selling price. Managers and their allies were also able to strip the assets of state enterprises by siphoning resources to parallel private businesses. With the tacit approval of the central government, the direct collaboration with local officials, and an underdeveloped legal and corporate governance framework, the privatizations happened with unexpected speed. Under the policy of "grasping the large, letting go of the small" by the year 2000, 81% of small SOEs had passed into private hands, primarily through sales.[4] This transfer to private hands was able to help overcome the lagging productivity in the state sector, but also laid the foundation for systemic corruption threatening the survival of the regime and the ability to enact necessary structural reforms.

[4] Zeng, Jin. State-led Privatization in China: The Politics of Economic Reform. Abingdon, Oxon: Routledge, 2013

4. The Three Represents: Welcoming the Capitalists to the Party

This economic liberalization received official sanction in 2001 when Jiang Zemin formally welcomed capitalists into the Party and encouraged officials to pursue business success. The policy of the "Three Represents" profoundly shifted official doctrine by inviting the formerly suspect class of "entrepreneurs, technical personnel, managerial staff, freelance professionals and the self-employed" to join the ranks of Party members.[5] Even though entrepreneurs had been banned from the Party in 1989 following the Tiananmen events, the policy now received unanimous support within the Politburo and formally enshrined the turn toward private business that has developed since that time. The public conservative critiques of this policy from Ma Bin and Deng Liqun asked legitimate questions about how a Party that claimed to be the Marxist vanguard of the proletariat could invite the ideological enemy into its membership. However, this left-wing idealism found little sympathy even among the scientists and engineers who had been the engine behind China's development and now yearned for recognition and compensation for this committment. The propaganda apparatus itself was utilized to suppress this left-wing critique through warnings from top officials to follow the new Party decisions, and even the closure of two critical journals.[6] The decree from top leadership was that getting rich was glorious, and that line has been encouraged and enforced by all the power of the state.

[5] Kuhn, Robert Lawrence. The Man Who Changed China: The Life and Legacy of Jiang Zemin. New York: Crown Publishers, 2004, 454.
[6] Kuhn, 459.

The type of collusion between Party officials and investors that occurred at the village level had also been happening at all levels of the political hierarchy and in all sizes of businesses: "...it was not just government departments that engaged in business dealings. The military, the policy, and the courts, indeed just about any Party and state agency that could convert its power, assets, and privileges into lucre were running business operations and aggrandizing themselves."[7] With Jiang Zemin's formal recognition, ministers and leaders of state-owned enterprises could openly become the managers and owners of privatized companies. The results of the corruption-prone process of changing SOEs into private shareholdings were decreed to be legitimate. By welcoming in private business into the Party, the CCP could then maintain control of the economic center in the developing economy while still warding off the possibility of political independence of the business sector. Top Party officials, and their families, were perfectly placed to reap these benefits on an individual basis; 90% of the millionaires in China in 2006 were the sons and daughters of former officials.[8] Similar to how local officials facilitated the success of investors with preferential regulation, the Party also acted as a guide for the officials who had turned business owners by sponsoring training and support for their success. This incongruous and historically unique combination of communist authoritarianism and capitalism has extended and preserved the control of the Party over capitalist enterprise, but also tacitly encouraged and institutionalized much of the corruption that menaces the regime to this day.

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[7] Yang, Dali L. Remaking the Chinese Leviathan: Market Transition and the Politics of Governance in China. Stanford, Calif.: Stanford University Press, 2004, 12.

[8] Dickson, Bruce J. Wealth Into Power: The Communist Party's Embrace of China's Private Sector. Cambridge ; New York: Cambridge University Press, 2008, 23.

Private entrepreneurs, as a group in China, never cohered as a formidable, independent political configuration as in Western countries. In order to pursue their interests, they have utilized instead informal nondemocratic means. Also, business owners as a group have not acted together as a unified class, and are instead more allied more according to sector, income, and geography.[9] Finally, many of the biggest capitalists have been co-opted into the state through offers of membership in the national of local people's congresses. These honors offer the individual businessperson direct economic benefits through favorable lending or public confidence, and additionally provide a mechanism for internal advocacy for favorable policy.[10] Despite the limitations of this more fragmented and co-opted class of business owners operating within an authoritarian state, as a group they have been able to bring about a much more favorable environment over time. Under the unique circumstances of late, rapidly arisen Chinese capitalism and the skillful co-optation of key business leaders, the Party has struggled little thus far to contain the capitalists themselves from seeking political liberalization.

5. Party on the Shop Floor: Red Fish Out of Water

The control that the Party once exercised in the daily lives of villagers and state owned enterprises has proven limited utility under free market conditions. Private enterprise proved a great boon to connected CCP insiders, but the appeal of Party membership and the value of its role within an enterprise was less clear to

[9] Tsai, Kellee S. Capitalism Without Democracy: The Private Sector in Contemporary China. Ithaca: Cornell University Press, 2007. 73.
[10] Truex, Rory. "The returns to office in a "Rubber Stamp" parliament." American Political Science Review (2013): 1-17.

many private entrepreneurs. In his survey of private business owners in 2003, Bruce Dickson found that 34% of business owners had already been Party members before starting or assuming control of their business. However, only 14% of owners chose to join the Party after the opportunity arose under the Three Represents. One common reason given for this reluctance was that the owner was simply too busy to join the Party. Facing the pressure of competitive markets, many business owners would be unenthusiastic about regular attendance of study sessions on Party documents. The owners also feared that they would be more closely scrutinized regarding the payment of taxes, which could prove devastating to profitability in an environment where 70% evaded taxes and most paid only half of the required amount.[11] Finally, joining the Party would predictably lead to pressure to create party organizations within the company itself. A preferable arrangement for business owners would be where Party processes within the company were subordinated completely to the prerogatives of the business. Given the central role that private enterprise was playing in the resurgence of the Chinese economy, Party officials were reluctant to oppose business owners' preferences.

The greater the party presence, the more distractions management and workers might face from party activities, not to mention the surveillance of company activities Party members would provide. According to Andrew Walder, communist systems require intensive systems of surveillance in order to preserve their rule.[12] The rapidity at which private enterprise arose within China posed significant problems in preserving the meaningful presence of the Party within businesses.

[11] Dickson, 2008.
[12] Walder quoted in Dickson, 2008. 69.

Companies would swiftly rise and dissolve, or change their locations and personnel, making keeping track of the businesses and their personnel difficult or even impossible. For workers and owners, their Party membership was only registered at a local level, and required a request and approval for transfer to remain valid. Many people who had moved to pursue work understandably found it easier to avoid Party participation altogether. According to official policy, any enterprise with more than three Party members was expected to form a Party branch. However, already by 1998, out of 1.2 million firms, only 14% had a single Party member, and only 0.9% had Party cells. One central reason for this low result was the small average firm size, which was only 15 people in 2004. Party presence inside of private businesses in the reform era largely has proved useless or an unwanted obstacle to economic success.

Larger enterprises and wealthy entrepreneurs were also the preferred targets for Party recruitment. Joining the Party was still at the discretion of officials, so that not just any businessperson could join. An invitation to join the Party yielded a 77.6% acceptance rate, compared to only 37% of those not invited themselves choosing to join. Existing loyalty to the Party from previous membership expectedly facilitated party building within the business. "Red capitalists" were much more likely to have party organizations in their firms, preferred to hire Party members, and recruited existing workers into the Party. The most apparent reasons for desiring Party membership as a business owner were economic benefits. Party members could enjoy better access to loans, more leeway in local licensing requirements, and a free pass on worker safety and environmental regulation. Businesses associated with the Party might also be insulated from competition or benefit from preferential local policies. Other than these positive benefits, a major benefit came from protection against government interference with business. Especially in the early years of economic liberalization, private businesses could be subject to arbitrary tax levies by local officials and other forms of discrimination. The benefits of Party membership often outweighed the disadvantages of an increased Party presence. Under these circumstances, it was larger enterprises that were more likely to possess a Party office, while smaller businesses operated without needing or desiring a Party presence. In the daily lives of businesses, the Party offers limited added value. And the advantages that do accrue to Party associated businesses are due more to preferential patronage than improved economic efficiency.

6. Abolition of the Agricultural Tax: Removing Control, Encouraging Capital

We can observe a similar obsolescence of Party control in the daily lives of local villagers in the welcome and successful separation of local officials from taxation. By 2006, agricultural taxes on rural villagers were abolished, bringing to an end an intrusion of the state into the lives of poor farmers that had existed continuously since imperial China. The policy relieved a financial burden on the farmers, and at the same time removed the intrusive Party branch secretary from costly intrusion into their lives. An Chen describes how the abolition of this tax heralded a fundamental transformation of the role of the local Party officials and village committees away from involvement in small agricultural economy toward the pursuit and facilitation of private business investment.[13] Without tax revenues, Party secretaries and townships needed to scramble to obtain revenues from investment, otherwise they would languish in irrelevance and penury. Success for a Party branch secretary was henceforth determined primarily by preventing local unrest and generating revenue from new business ventures. The villagers themselves were caught up in this change, because despite much increased autonomy to sell agricultural products directly in the market without going through the Party-state bureaucracy, the money to be made from renting out collective land for business ventures greatly exceeded the profits available from small scale farming. The role of the Party in the economy had decisively shifted from extracting revenues from villagers on behalf of higher level authorities, to brokering the entrance and expansion of private investment in the local area with only indirect involvement of the local population.

In order to obtain these necessary revenues, local Party officials were incentivized to form collusive alliances with entrepreneurs. Even if the Party secretaries had lost the stream of taxes from the farmers, they still retained important control over commercial licenses, zoning regulations, and land development permissions.[14] Competition for investment encouraged preferential regulation and the enforcement of a compliant local population for the generous utilization of collective assets. Corruption and criminality in this alliance of the Party and business was rampant. Yet because of the narrow criteria whereby cadres were evaluated by higher levels, many of these shady deals and bullying of local residents went

[13] Chen, An, (2014).
[14] Paik, Wooyeal, and Richard Baum. "Clientelism with Chinese Characteristics: Local Patronage Networks in Post‐Reform China." Political Science Quarterly 129.4 (2014): 675-702.

unchecked. Because mass disturbances and petitions to Beijing were punishable failures in the cadre evaluation systems, problems that could not be ignored or bought off would be repressed. Political control, which during the Mao era, extended deeply into the daily economic activities of villagers, now has retreated to a decentralized monitoring of local economic growth. Ideally, under this arrangement the dynamism of local capitalist enterprise can be encouraged without sacrificing Party control of officials and therefore the authority central regulation and planning.

7. SASAC: Inefficient Behemoth in the Center

Key to this preservation of central control while permitting local economic autonomy has been keeping the largest and most profitable state owned enterprises firmly within the control of the central government. Under the State Owned Assets and Administration Commission (SASAC), the Chinese government has preserved monopoly power over the telecommunications, financial services, oil and gas extraction, tobacco, public utilities, and electric power industries. In order to preserve a preponderance of control over capital within China, the Communist Party has thus far refused to permit these vital industries to enter private hands. These companies preserve a large, lucrative portion of the economy for the central government. The total profits of China Mobile and Sinopec together exceeded in 2009 the combined profits of China's largest 500 private companies.[15] Through the Organization Department, the Party appoints the top three executives at the 53 most important

[15] Lardy, Nicholas R. Markets Over Mao: The Rise of Private Business in China. Washington, DC: Peterson Institute for International Economics, 2014.

SOEs. Therefore Party prerogatives, rather than the decisions of shareholders or boards of directors, or any independent meritocratic process ultimately determine managerial control. This close supervision of control of these large SOEs is in marked contrast with the decentralized privatization process already described, and the haphazard participation of the Party within businesses.

Apart from the key monopolized industries, which pull in unusually large profits relative to their assets, the rest of the large SOEs under control of SASAC have performed poorly relative to their private counterparts. Where barriers to private entry have been absent, private firms have been able to replace and improve upon the operations of SOEs. Productivity has been consistently demonstrated to be superior in private firms. In addition the disadvantages faced by private firms relative to SOEs are diminishing. Bank credit, for instance, long seen to favor the state sector over private firms, is now more available to private enterprise than ever before. This makes sense given the superior financial performance of private business, and therefore the better credit worthiness of these businesses. Additionally, since the private sector has become the locus of growth, banks interested in better profitability will be more inclined to invest in better performing industries. This increase in credit can be seen in metrics such as the seven-fold greater investment of private firms over state firms in the manufacturing sector.[16] Measured according to performance in the open market, state owned enterprises do not possess the dynamism and efficiency of the private sector. Therefore the Chinese communist party is caught in the dilemma of needing the growth of the private sector to preserve its performance legitimacy in

[16] Lardy, 2014.

continuing GDP growth, yet at the same time only succeeding in this venture when the state does not interfere. Top Chinese leaders have remarked that China is currently entering the "deep waters" of reform, where the predictable interactions between increased liberalization and the stability of the regime are in question.

Parallel to the ongoing anti-corruption campaign, within academic and economic policy planning circles a theoretical debate about the proper role of the state in the economy is ongoing.[17] Those who will lose out on privileged positions within SOEs are natural allies of Party conservatives, who have opposed privatization efforts on orthodox Marxist grounds and who also decry liberalization as an effort of foreign powers to destabilize the regime. Then there are a constellation of critics who do not fundamentally oppose pro-market reforms, but nonetheless want to preserve the redistributive potential of large, corruption-free SOEs, and also hope to utilize the government intervention create national champions. Finally there are the reformists, including the State Council and the World Bank, who advocate for deep reform of a structurally inefficient government sector toward free markets. Central to this debate is how to achieve the twin goals of economic prosperity under free markets, and sufficient power and authority to ensure continuing one-party rule.

8. Capital Outflows: The Caged Bird Takes Wing

Perhaps the largest challenge to the historic role of the Chinese Communist Party controlling productive capital in the country is the danger of capital flight. Net

[17] Kelly, David, Amanda Rasmussen, and Erlend Ek. 2012. SOE Policy Debate: Six Tribes. *China Economic Quarterly* 16. no. 4 (December): 23-28.

capital outflows are estimated to have reached $478 billion dollars in 2015.[18] One of the sectors still tightly controlled by SASAC in China is the financial sector. There are also strict limits on capital transfers both into and especially out of the country. One reason for the strength and resiliency of western capitalist markets is their openness to both external and internal investment. Accompanying these open policies is the free exchangeability of currencies, which facilitates easy investment and repatriation of profits made by companies operating abroad. Throughout the previous iterations of privatization and liberalization in China, the process could largely remain controlled by the watchful eye of the state. Local officials and private businesses were permitted greater autonomy, and given strong legislative legitimacy to their property and operations, yet the ultimate arbiter of acceptable practice still remained concentrated in the Party and the central government. Under globalized capital markets, this type of ultimate control is difficult if not impossible to exercise. The factors explaining capital flight reveal both the remaining inefficiencies of the Chinese financial sector and the reasons why individuals and companies would seek to circumvent capital controls: high domestic financial transaction costs, inappropriate exchange rates, large domestic holdings of foreign currency, and different treatment of foreign and domestic capital.[19] In order to avoid unnecessary costs while doing business, it is natural for businesses to seek to hold their capital in external countries and markets that lack these obstacles. Even with the private sector providing the majority of growth in the Chinese economy, the Chinese government has still been

[18] Coy, Peter, Enda Curran, and James Regan. 2016. "China's Capital Flight." Business Week no. 4459: 10-11
[19] Ljungwall, Christer, and Zijian Wang. 2008. "Why is capital flowing out of China?." China Economic Review 19, 359-372.

able to benefit directly from that economic activity through taxation. If domestic Chinese capital has the option of leaving the country, and re-investing or simply holding the capital abroad, then this source of state revenues and economic growth could slip away.

This situation contrasts notably with earlier concerns about the democratizing potential of private business. Previously, it was widely thought that successful business owners would press for political liberalization necessary to preserve their economic growth. Observers of the Tiananmen Square protests in 1989, for example, pointed to the financial contributions of the Stone Group to the young activists. Evidently, however, this alliance between private business and pressure for political reforms was an exception at the time, and the business sector did not support the protests because it was obstructing daily revenues.[20] Now, when private business is much larger in magnitude and legitimacy within China, the option exists for capital to simply leave the country for more democratic and free market environments. And it appears that many business owners are deciding on that easier route, leaving the country rather than suffer these inefficiencies or the pitfalls of advocating for internal economic policy reform. Free capital markets in a global economy do not permit the central control the Chinese regime has wielded since the founding of the People's Republic of China.

[20] Dickson, 2008. 17.

9. Xi Jinping Anti-Corruption Campaign: Good for Business?

The aggressive anti-corruption campaign of the Xi Jinping administration is responding to these interacting challenges of the Chinese economy and the legitimacy of the Party the future. Corruption under the first waves of privatization reached such pervasive levels that Party leaders have spoken openly of an existential threat to the regime. Other policies such as the abolition of the agricultural tax have removed one obtrusive aspect of hated officials from the lives and incomes of villagers. The result and aim of this policy, however, encourages even further focus upon growth above all else. The intensified anti-corruption campaign under Xi Jinping has the twin aim of curbing the flagrant illegality of Party officials' business excesses, at all levels, in addition to winning back the diminished confidence of the general population. The policy is popular with those disgusted with corruption, but it has many wondering whether the atmosphere of uncertainty and fear will cripple active governance or even scare the economy into further economic slow-down. The private, uncontrolled, sector of the economy is the most productive and valuable sector of the economy, and state owned enterprises are a continuing drag on efficiency and growth.[21] The same negative evaluation may go for the Party itself and its pervasive presence in business.

We are now observing a large-scale natural experiment regarding the connection between the Party and the economy. If the campaign can indeed limit corruption, while keeping the economy afloat, then that be evidence of at least compatibility between authoritarian control and business success. The persistence and consistency of Xi Jinping's campaign against corruption, no matter how high up in

[21] Lardy, 2014. 12.

the Party hierarchy it may be found, has become clearer over the past two years. Therefore, we can reasonably expect a lessening of corrupt interaction between Party membership and the business world. And assuming that these forms of corruption are inefficient and loss inducing, the stricter environment should better distribute and generate value, and thereby act as a support or improving the Chinese economy. On the other hand, in the more cautious environment of a heightened anti-corruption campaign, we may also see increased efforts to remove capital from China or the decrease in forms of economic activity that have relied upon corrupt actors. Disentangling the economic effects of the anti-corruption campaign from the normal trajectory of macroeconomic effects will be challenging because both official government statements and many observers of the Chinese economy agree that an economic slowdown in China was already inevitable.

10. Conclusion

One popular school of thought on the Chinese economy sees the cooperation of the state and the business sector as the key to its dramatic recent success and continuing prosperity.[22] However, on the basis of the episodes examined in this paper, the value that the Party adds to the success of the economy is dubious. At a local level, Party officials have transformed from necessary agents of a planned economy into brokers for investors looking for giveaway terms at the expense of villagers and even legality. And given the fact that profiting themselves, inside or outside the Party, has been overtly encouraged, it makes their role ripe for corruption. In the established

[22] Yang, 2004, 11.

industries, the Party has been working to deepen its presence in the form of Party cells or Party-sponsored business associations. However, despite compliance of business leaders with Party demands, it is dubious whether the managers of these enterprises wish for the surveillance and presence of a conflicting line of authority in the center of business operations.[23] If the Party is not adding value in its interaction with business, then, under the assumptions of market efficiency, China will suffer from its interference. Given, however, that markets worldwide do not usually live up to their assumed free market properties, it may be that the amalgam of deep Party penetration of big and small industry can still manage to perform successfully.

Can the Chinese Communist Party further liberalize the economy while preserving ultimate political control? For more than seventy years, the Party has preserved its unchallenged rule against unprecedented volatility and transformation. In light of the ambitious enterprises of the Xi Jinping administration, such as One Belt One Road, the Asian Infrastructure Bank, and the internationalization of the renminbi, the reasonable first presumption must be that decisive central power will be retained. Brokering the opening of Chinese capital to free inflows and outflows, under a floating currency, pose turbulent new challenges to the regime. In the face of recent missteps surrounding mainland stock markets, hopefully an edifying lesson for close restraint of the financial sector will be preserved. Barring a collapse in the economy, most likely due to the manipulations of a too free financial sector, I predict free markets will grow and authoritarianism shall stay.

[23] Thornton, Patricia M. "The Advance of the Party: Transformation or Takeover of Urban Grassroots Society?." The China Quarterly 213 (2013): 1-18

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