DEMOCRATIC TENDENCIES

Wealth, the Middle Class, and the Prospects for Chinese Democracy

Tatenda Pasipanodya

Undergraduate Class of 2015

St. Lawrence University, Canton, NY

Fall 2013 GOVT 290 Research Paper

East Asia

For Consideration for the Marleigh Grayer Ryan Undergraduate Student Writing Prize

Contact Information*
Email: tmpasi11@slawu.edu
Phone: 617 899 6518
Address: 23 Romoda Drive, Canton, NY 13617

*Email is my primary contact method
Introduction

The ascendance of Deng Xiaoping to the role of paramount leader in the People’s Republic of China in 1978 marked a turning point in the country’s political and economic history. Mao Zedong, Deng’s predecessor, had left China in an abysmal economic state with revolutionary socioeconomic upheavals like the Great Leap Forward in 1958, and the Cultural Revolution in 1966. A much needed shift in economic and social policy began with Deng’s era of leadership. His administration created economic reforms that have been lauded by political economists as arguably the greatest cause for China’s decades-long period of economic growth that continues to this day. With the movement towards economic liberalism, Deng also introduced complementary political reforms to strengthen the economy and pave the way for a positive business environment.

This strategy of economic and political liberalization directly and indirectly led to an era of economic growth such as the world had never seen before. So great was China economic miracle that the number of rural poor fell from 250 million in 1978 to 34 million in 1999.\(^1\) China’s economic performance is so great in scope that it even goes as far as significantly influencing world poverty statistics, as is illustrated in the chart on page 2.\(^2\)

As China’s economy has surged, political economists, particularly in the West, have eagerly anticipated the emergence of a democratic China. However, China has evaded this political transition. Unlike in its East Asian counterparts, Taiwan and South Korea, decades of economic development have not created significant democratic momentum within China.

---

\(^1\) Huang, Yasheng. *Capitalism with Chinese Characteristics*, (New York: Cambridge University Press, 2008), 53.

Scholarly predictions on the matter are thus far inconclusive. Some experts, like Minxin Pei and Chunlong Lu believe Chinese democracy is on the horizon. However, other scholars are less inclined to come to this conclusion; with economic reforms reaching their thirty fifth year in 2013, it is more than optimistic to continue adopting the any-second-now view on Chinese democracy. This paper intends to address a crucial question in understanding China’s growing role in the global political economy: Is China’s economic growth since the Deng Xiaoping era (1978-present) – particularly in its effect on the middle class – leading to democratization in China?

Consider the method through which development generally impacts the prospects of democracy. Democratic institutions cannot be successfully set up easily overnight. The failure of democracy in several Sub-Saharan African, Middle Eastern and South American countries provides evidence of this. Following the decline of colonialism in the mid- to late-20th century, “overnight democracies” like Zimbabwe, Malawi and Sierra Leone dramatically turned to political and economic disasters. Successful democratic institutions are likely to emerge only when the social and cultural conditions necessary for democracy are already in place. Economic development pushes these conditions in the right direction, making the emergence of successful democracy increasingly likely. Western European countries followed this method of development-to-democracy, and so have several successful new democracies that emerged in the latter half of the 20th century, like South Korea and Taiwan.
In general, the relationship between growth and democratization in a country comes by way of a growing middle class: more educated, more ambitious, more entrepreneurial, and therefore more politically active, applying social pressure for democratization. In other words, development leads to a middle class, which leads to democracy. With growing urban migration in China, as well as the country’s record of alleviating poverty, China’s middle class is indeed increasing in size. It is therefore crucial to understand the effect of this middle class on the possibility of democracy in China in the foreseeable future. Knowledge of this will prove very useful in our understanding of Chinese foreign policy, as well as in predicting the future of the global economy, which now finds itself highly dependent on the continued stability and consistency of China’s polity. The importance of China’s political system cannot be overstated. Similar to the Cold War threat of the Soviet Union, Communist China presents a significant perceived threat within the global arena, particularly in the United States. The emergence of a democratic China will put an end to the “China Threat”, much like the fall of the Soviet Union in December 1991 put an end to the Cold War. It is therefore important for scholars and policymakers to ascertain if a democratic China is within reach, and if so, how it will come about.

In this paper, I argue that economic liberalization and growth in China beginning with the Deng era of leadership will not result in democratization of the country. The pathway to democracy that many successful development-induced democracies in the past have followed is not one that China is following. With the emergence of a thriving middle class, it is expected that there will be internal pressure to democratize. However, in China’s case, there is a missing link between development and democracy. The middle class is disinterested in democracy, as it would not serve their political and economic goals.
The structure of this paper will follow a two-pronged approach. The first – and central – prong will look at the middle class, arguing that the role of China’s middle class in pushing for democracy is minimal. Neither the middle-class, nor the upper-middle class – the bourgeoisie – inclines Chinese politics towards democracy. Both these groups are apprehensive of the political instability as well as economic insecurity that would result from democratization. I argue that the middle class’s grudging support for the Communist Party of China (CCP) is the result of an implicit agreement between the Chinese people and the CCP to promote economic growth and social stability in line with the slogan “social stability is above all” (shehui wending yadao yiqie). I have chosen the term “Beijing social contract”, the title of this paper, to refer to this implicit agreement. In the second prong, I respond to optimist arguments concerning China’s democratization. This section is divided into two parts. In the first part, I argue that apparent symptoms of democratization are in fact part and parcel of the Beijing social contract, and not necessarily the seeds of democracy, as optimist scholars would argue. The second part argues that structural differences between Chinese society and Taiwanese and Korean societies discount the comparison between the latter two’s respective paths to democracy and that which China can take. This makes the probability of development-driven democracy much harder in China than it was in Taiwan and South Korea. Firstly, though, I will discuss the wide pool of background scholarship related to this paper’s research question.

**Background**

Concerning the prospects of development-led democracy emerging in China in the foreseeable future, there are two schools of thought: the optimists and the skeptics. The optimist

---

school includes Minxin Pei, Jie Chen and Chunlong Lu. These scholars see a democratization on the horizon for China, and all of them cite the same reasons for this impending transition: economic liberalization beginning in the late 1970s led to the emergence of a growing middle class in China, which will make democratization inevitable. Pei says that though China’s economic liberalization seems to have come without any accompanying political liberalization, careful examinations gives evidence to the contrary.⁴

Although there are no obvious signs of democratization, internal changes in the political institutions of the regime are gradually and subtly forming important checks and balances against the ruling party’s monopoly of power and strengthening the rule of law. Furthermore, liberalization trends appear to be accelerating. If allowed to continue, they will lay the foundations for eventual democratization. Since the late 1970s, China has seen the modest establishment of the rule of law, creation of representative institutions under the direction of the regime, the expansion of local autonomy, and even the holding of semi-free local elections. He compares China to Taiwan, whose incremental internal institutional changes such as local semi-free elections and local autonomy laid the groundwork for the transition to democracy.

In a subsequent article, Pei reaffirms the arguments in his earlier work and builds on them by describing further illustrations of political liberalization including term limits for government and party officials, as well as mandatory retirement.⁵ These reforms have transformed the ruling elite from one composed mostly of poorly educated, aging revolutionaries to one dominated by middle-aged technocrats. Pei also argues that the rise of National People’s Congress from being

⁵ Pei, Minxin. "Is China Democratizing?" *Foreign Affairs* 77.1 (United States: Council of Foreign Affairs, 1998), 68-82.
a rubber stamp to being a potential check on the CCP’s monopoly on power signals an increase in representative governance. Chen and Lu address the question of how democratic China’s middle class is. A middle class leaning towards democracy will be the building block of democratization in China. They carry out a study of China’s urban middle class and their findings suggest that urban Chinese middle-class individuals do think and act in accordance with democratic principles.

To contradict the optimists stand the skeptics. This school includes scholars like John Fuh-sheng Hsieh and Jonathan Unger. They believe that the democratization of China is not within the foreseeable future. Their reasoning is that China’s growing middle class is not pro-democratic. Unger considers the same question that the optimists Chen and Lu considered: just how democratic is China’s middle class? The expansion of a thriving middle class is evident in China’s cities: mega-malls, gated housing projects, etc. Unger comes to a different conclusion from Chen and Lu. According to Unger, the educated middle class are elitist and do not want democracy (nor did they at Tiananmen). They do not want China’s peasant majority to play a decisive role in deciding the country’s leadership. They are vaguely democratic, so long as democracy can be put off to a future time.

Hsieh argues against the imminence of Chinese democracy by discounting the comparison of China to Taiwan, which Convergence scholars generally use in predicting China’s political future. He acknowledges that both Chinese and pre-democracy Taiwanese culture had

---


inherent Confucian hierarchy, which is not conducive to democracy, however, Taiwan managed to overcome this. He argues that the reason Taiwan (and South Korea) managed to democratize is that Taiwan had significant ethnic and national identity cleavages and South Korea had regional cleavages, which were a pivotal resource for champions of democratization to establish pluralistic social order. In contrast, Chinese society is relatively homogenous, with Han Chinese consisting of almost 92 percent of the population. Therefore, whilst South Korea and Taiwan were able to overcome the Confucian social order and democratize, the key factors that drove this democratization do not exist in China. As a result, China will not follow in the footsteps of Taiwan and South Korea.

**China’s Growing Middle Class**

The last few decades have seen significant growth patterns in household earnings in China. There has been a massive increase in private enterprises and individual business households. In the early days of the Deng reforms, China’s economy was dominated by state-owned enterprises (SOEs), and even after the start of massive FDI inflows, the domestic economy was still significantly state-oriented. In the late-1970s, China’s leaders encouraged the growth of private household income through what Yasheng Huang terms “directional liberalism” and defines as “marginal change from the status quo ante of the Cultural Revolution.” Through the loosening of restrictions on private entrepreneurship, Huang argues that China’s politics afforded rural entrepreneurship room to blossom in the 1980s, increasing incomes significantly.\(^8\) Coupled with an increase in private economic agency through the privatization of SOEs beginning in 1997, more and more Chinese shifted from being wage workers to being small- to

\(^8\) Huang, *Capitalism*, 35-40.
medium-scale business owners. By 1999, SOEs only made up 47 percent of the national economy. The domestic private sector accounted for as much as 40 percent and dominated the regional economy in some coastal provinces. The rise of private economic agency was largely legitimized by policy changes in the 1997 Party Congress, which pledged to give legal protection to the private economy.10

According to An Chen, the total number of private enterprises in China had reached 1.51 million by 1999, with an average registered capital of 682,000 yuan (US$82,398).11 The table below tracks the development of private firms between 1989 and 2000. The number of firms rose from 91,000 to over 1.7 million during this period, and the workforce rose from 1.4 million to 20 million.12

<table>
<thead>
<tr>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td><strong>Number (1,000)</strong></td>
</tr>
<tr>
<td>91    98     108    140    238    432    655    819    961    1,201   1,509    1,762</td>
</tr>
<tr>
<td><strong>Growth (%)</strong></td>
</tr>
<tr>
<td>8.4   9.9    29.5   70.4   81.7   51.4   25.2   17.3   25     25.6   16.8</td>
</tr>
<tr>
<td><strong>Owners (1,000)</strong></td>
</tr>
<tr>
<td>210   224    241    303    514    889   1,340  1,705  2,042  2,638  3,224  3,954</td>
</tr>
<tr>
<td><strong>Growth (%)</strong></td>
</tr>
<tr>
<td>6.7   7.6    25.7   69.6   73     50.7   27.2   19.8   29.2   22.2   21.5</td>
</tr>
<tr>
<td><strong>Workforce (1000)</strong></td>
</tr>
<tr>
<td>1,426  1,478  1,598  2,015  3,213  5,594  8,222  10,007  11,450  14,453  16,498  20,112</td>
</tr>
<tr>
<td><strong>Growth (%)</strong></td>
</tr>
<tr>
<td>3.7   8.1    26.1   59.5   74     46.9   21.7   14.4   26.2   17.6   18.4</td>
</tr>
<tr>
<td><strong>Registered Assets (billion RMB)</strong></td>
</tr>
<tr>
<td>8.45  9.5    12.3   22.1   68.1   144.8  262.2  375.2  514   719.8  1,028.7  1,330.69</td>
</tr>
<tr>
<td><strong>Growth (%)</strong></td>
</tr>
<tr>
<td>9.5   13.1   29.5   79.7   208.1  112.6  81.1   43.1   37     40     42.9   29.4</td>
</tr>
<tr>
<td><strong>Gross Product (billion RMB)</strong></td>
</tr>
<tr>
<td>9.7   12.2   14.7   20.5   42.2   114    229.5  322.7  392.3  585.3  768.6  1,073.98</td>
</tr>
<tr>
<td><strong>Growth (%)</strong></td>
</tr>
<tr>
<td>12.2  17.1   32.3   81.9   122    75.4   32.5   20.6   53.2   35.4   38.7</td>
</tr>
<tr>
<td><strong>Taxation (billion RMB)</strong></td>
</tr>
<tr>
<td>0.11  0.34   0.46   1.05   1.75   3.36   6.02   9.05   16.3   25.5   41.44</td>
</tr>
<tr>
<td><strong>Growth (%)</strong></td>
</tr>
<tr>
<td>78.6  69     34.6   129    67.5   103.1  69.2   50.2   80.1   56.4   62.5</td>
</tr>
</tbody>
</table>

9 Huang, Capitalism, 168.
10 Chen, Capitalist Development, 404.
11 Ibid, 409.
When discussing the middle class, it is important to come up with a working defining criterion that can be used to clarify data. Forbes defines China’s middle using income as a measurement:

“According to McKinsey Global Institute, the Chinese middle class is those people whose annual incomes, in terms of purchasing power, range from $13,500 to 53,900. The Chinese Academy of Social Sciences (CASS) released a report in 2004 defining the Chinese middle class as families with assets valued from $18,100 to $36,200 (150,000 to 300,000 yuan). The official data from China’s National Bureau of Statistics categorize the Chinese middle class as households with an annual income ranging from $7,250 to 62,500 (60,000 to 500,000 yuan).”

Along with the growth in China’s entrepreneurial class has been an accompanying extraordinary growth in the middle class. Urban opportunities have resulted in an urban Chinese population bigger than the total U.S. population. In 2000, only 4 percent of this population were considered middle class, however, this number had soared to two-thirds by 2012. A lot of these people climbed the economic ladder through entrepreneurship, SOE management, skilled labor, as well as through white collar employment by multinationals. With the growing economy, there have been a lot of business opportunities for skilled and innovative Chinese.

The first link of the development-to-democracy chain is clearly visible in China’s economy: the middle class is growing at an extraordinary pace. The other link to be established is whether or not this growing middle class is bringing with it growing democratic sentiment, which will help create a democratic transition within China. China’s middle class experience is

very much unlike that which led to democracy in Western Europe and in South Korea and Taiwan. The upper tier of China’s emerging economically salient households, the bourgeoisie, are bureaucrats and government-appointed managers of SOEs, or self-made entrepreneurs with ties to the government. Many in this group come from political families and wield a disproportionately large chunk of social, economic and political influence, particularly at local levels. Their private enterprises thrive upon their official networks. David Goodman of the University of Sydney and Nanjing University argues, “China's socio-political experience is not that of Europe or North America, so the middle class remains an essential part of the state from which it has emerged and is not very likely to be the Chinese equivalent of the European or North American bourgeoisie with whom they are often equated.”

Chinese bourgeois are hesitant to support democratization. They associate democracy with social and political chaos, economic breakdown, and other social evils. They are suspicious of the notion of free elections and consider them to be inapplicable in China. To them, free elections mean endless street demonstrations and mass rallies, which would bring about a government which panders to the poor majority. The general middle class also possesses similar apprehensive views toward democracy. Presently, the majority of China’s population are below middle class. As such, a pluralistic electoral system would afford this class significantly more political and economic influence than they currently enjoy. This is what the middle class is

---

16 Chen, *Capitalist Development*, 408.
17 Ibid, 411.
20 Goodman, *The New Middle Class*, 245.
apprehensive about; the implementation of democracy will shift the balance of power against their interests. However, China continues to grow, and so does its middle class. As the middle class grows, it will turn from an anti-democratic into a pro-democratic force. However, this will only happen when the size of the middle class exceeds half of the entire population, and the likelihood of extremist politics as well as threats from the lower classes are lessened. Chen refers to this as a point when the “pyramid-shaped social stratification system” shifts to a “diamond shape, in which the majority of the population is middle class and relatively well-off.”

China’s authoritarian system has survived for so long, with few hiccups like the 1989 Tiananmen Square protests, largely because of its ability to combine economic liberalization and development with authoritarianism, thereby suspending popular discontent with authoritarian rule. This tightrope act, which began with Deng Xiaoping’s reforms and continued with political reforms and subsequent private enterprise reforms in 1997, has progressed for almost three and a half decades now, promoting a growing middle class or “moderately well-off society”, albeit with numerous flaws, some of which are rampant corruption, inequality, and government control of information. A focus on nationalism and wealth building on the part of the CCP has enabled it to build legitimacy with the middle class by providing economic growth, partnered with adequate social freedoms and economic rights. Pei describes this as:

“…a "neo-authoritarian" development strategy…centred on maintaining high rates of growth through embracing globalization and economic reforms. Socially, the party allowed more personal freedoms. (For example, ordinary citizens can obtain passports for foreign travel in 10 days.) Politically, it mixed sticks with carrots, repressing dissidents who dared to challenge the party’s authority while co-opting new social elites such as private entrepreneurs and professionals.”

---

This is what I term the Beijing social contract. The Chinese middle class have implicitly consented to CCP rule, provided the party is able to create a “moderately well-off society” and guarantee personal and economic freedoms. As long as citizens are allowed to grow wealthier, they will not seek to challenge authoritarian rule.24

**Acknowledging Optimist Arguments**

While this paper only addresses the role of the middle class and the “Beijing social contract” in forestalling democratization in China, it is crucial to address some counterarguments offered by optimist scholars. Here I have chosen two important arguments that are commonly exercised in predicting a democratic China. The first argument is that China’s sociopolitical and economic conditions are very similar to those that existed in Taiwan and South Korea before economic growth led to development in the two countries. The second argument is that along with the economic liberalization, the reform era brought with it – and is still bringing – political reforms that are paving the way to democratization.

1. **Does gradual and incremental political liberalization evidence impending democratization?**

   Optimists view the implementation of political reforms in China as the crepuscular rays of Chinese democracy. Indeed, China has undergone significant political change since the early days of Deng Xiaoping: village elections, rule of law, enforcements of the legal system, the rise of the National People’s Congress as a representative body, and CCP structural reform, to name a few. However, these moves towards political reform were not targeted as modest first steps toward democracy. Instead, they were implemented to complement economic liberalization,

---

thereby sustaining China’s economic growth. For example, the establishment of rule of law was implemented mainly to attract economic investment, rather than to usher in democracy. While these reforms may serve both purposes, it is important to note that they effectively support the Beijing social contract structure by ensuring prolonged economic growth and social independence, while depriving the Chinese of substantial political expression. At the end of the day, such reforms only serve to placate the population and expand the longevity of the CCP’s legitimacy.

2. Are Taiwan and South Korea fair comparisons?

Minxin Pei argues that the gradual and incremental institutional changes that have been taking place in China since the beginning of the reform are similar to the incremental changes implemented by the old Taiwanese government, laid the groundwork for democratization in Taiwan.²⁵ Larry Diamond cites the striking cultural similarities between the two: they share a common language, culture, history, as well as political systems with their origins in the revolutionary politics of early twentieth century China.²⁶

However, as Hsieh argues (see background section), the Taiwan-China comparison is questionable. While incremental institutionalization of political reform did indeed pave a pathway to democracy in both Taiwan and South Korea, other factors also played a significant role in making sure that the political reforms translated to democracy. What Taiwan and South Korea had, but China doesn’t is cultural pluralism. Both the former had several ethnic and regional cleavages that created an endogenous pluralistic sociopolitical attitude in the population.

---

²⁵ Pei, Creeping Democratization, 67.
As a result, when the middle class rose, there was popular support for a system of government that could support pluralistic interests. Chinese society, however, is culturally homogenous, with the most salient cleavages being economic in nature.\textsuperscript{27}

In addition to internal pressures, external pressures also led Taiwan and Korea towards a path of democracy. With the support of Western economic juggernauts like the United States that also happen to be the champions of democracy, the two countries faced significant external pressure to enter a democratic transition.\textsuperscript{28} In contrast, Chinese politics is influenced by Leninist-Marxist ideals, and was heavily aligned with anti-democratic sentiment in its infancy. As such, a democratic transition is not so easily approached. While most aspects of the CCP ideology have evolved from their victory against the Kuomintang in 1949, two aspects of it remain: the heavy focus on nationalism, and the preference for authoritarianism because of its affinity for “social stability”. This makes it difficult for the CCP to adopt or entertain notions of democracy.

Diamond compares China and Taiwan’s growth trajectories. He notes that the two are strikingly parallel, with China following, virtually identically, the soaring ascent in per capita income achieved by Taiwan. He argues that China has already reached the “zone of transition”, the range of economic development levels in which democratic transitions are most likely. However, as we are well aware, China does not seem to be democratizing.\textsuperscript{29}

\textbf{Conclusion}

\textsuperscript{27} Hsieh, \textit{Democratizing China}, 383-387.
\textsuperscript{28} Diamond, \textit{China’s Democratic Transition}, 244.
\textsuperscript{29} Ibid, 245.
To say that China will never democratize would be misinformed. Democratization may indeed be as inevitable as optimist scholars argue. As political scientists, we must remember that we are all students of history. Many of the highlights of 20th century international politics occurred while our backs were turned. It is therefore important to keep an open mind when discussing such complicated questions. Perhaps another Tiananmen – or any such event – may trigger a swift democratization quicker than political scientists expect. However, as is, it is unlikely that China will see democracy in the foreseeable future. This, as I have discussed, is largely due to a lack of internal pressure to democratize, as well as external pressure from countries in the West like the United States. The global economy has become largely reliant on China’s economic role in the global market, and so international pressure from the West concerning Chinese domestic policy has taken a backseat. It will be interesting to see how the next decade or two of Chinese growth will affect the country’s polity as well as the global economic and political balance of power.
Bibliography


