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COMMENTARY

The Rise of the Bureaucratic Bourgeoisie and Factional Politics of China

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On 1 October 2009, China's top political leaders presided over the lavish ceremony celebrating the 60th anniversary of communist rule. On that day, on top of Tiananmen Square, television viewers saw on the screen an unprecedented scene. Standing beside President Hu Jintao (b. 1942) was his predecessor Jiang Zemin (b. 1926). In front of the camera, Jiang, then the 83-year-old party veteran who stepped down from the posts of president in 2003 and Central Military Commission chairman in 2004 still looked healthy and strong. The surprising appearance of Jiang struck many China watchers as significant as it was the first time that the autocratic state, which resolutely upholds single-party rule, *apparently* had two leaders of comparable power. Equally surprising, albeit with relatively less media exposure, in October 2007 the Chinese Communist Party (CCP) Congress abandoned usual practice and announced not one but two heirs apparent: Xi Jinping (b. 1953) and Li Keqiang (b. 1955). The succession plan is that Xi will take up Hu's presidency, and Li will succeed Wen Jiabao (b. 1942) as premier of the State Council in 2012. Like the Jiang-Hu Tiananmen appearance, the Xi-Li pairing also consists of two persons who share little in terms of family background and factional affiliation. Xi Jinping has a ''princeling'' (*taizi*) background with his father Xi Zhongxun (1913-2002) being a former vice-premier, whereas Li Keqiang gained his political power mainly through being secretary of the Communist Youth League (CYL) in the early 1980s. While Xi is an ally of Jiang Zemin, Li is a well-known confidant of Hu Jintao.

While all these public displays can be understood in terms of factional politics, for example, between the princelings and *tuanpai* (the CYL group), scant attention is paid to understanding how the force of the emergent bureaucratic market has intervened in high-level politics. Notable in this is the rise of bureaucratic capitalism in post-Deng Xiaoping China. One should be reminded that China's transition towards capitalism or in Party terms, ''socialism with Chinese characteristics,'' has been guided by the cautious reform approach set by Deng (1904-97). The principles are: economic

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reforms are not juxtaposed with a democratised political system; state governance will never follow the Western model of tripartite separation of powers; and every major reform policy has to be channelled through the existing authoritarian bureaucracy. These principles have created a rent capitalism through which state bureaucrats and their associates become major beneficiaries of the system. Central to the discussion here is a small circle – a bureaucratic bourgeoisie – who are either children, close relatives, or protégés of top political leaders. They have come to control key state corporations, with some having close ties with the military. This commentary examines the key features of China's bureaucratic bourgeoisie which have evolved since the Deng reforms and economic opening, and discusses the implications of the emergent form of bureaucratic capitalism for future factional politics.

Bureaucratic Bourgeois in Deng's Era

After the communist takeover in 1949, Mao Zedong was cautious about the idea of developing the bureaucracy into a quasi-autonomous "national capitalist class." At the close of the Mao era, the political and economic roles played by "national capitalists" were indeed limited. It was not until Deng gained the political ascendancy that bureaucratic power was institutionalized and a market economy introduced. These reforms in the late 1970s provided the foundations for the emergence of a bureaucratic capitalist regime. Key state corporations were set up or re-structured as comprador-type trading organisations which carried out business deals with foreign companies. Taking advantage of the influence of their parents or in-laws in the bureaucracy, many children of high-level cadres took the leading roles in these organisations and began to make huge personal gain. The business of these organisations was destined to be lucrative as the well-connected bureaucratic capitalists were able to purchase raw materials or commodities at a national – below market – price and reap surpluses by selling in the market. Real competition did not exist as unconnected companies were easily crippled by highly corrupt bureaucratic hurdles in the names of certification, taxation requirements and quota systems.

It should be noted that almost all the leading positions in the key state corporations at that time were occupied by children and close relatives of party veterans. For example, for most of the time since its foundation in 1979, China International Trust and Investment Corporation (CITIC) had been headed by Wang Jun (b. 1941), son of another former vice-president, Wang Zhen (1908–93). Wang Jun remained in his position until he resigned in 2006. His position was then taken by princeling, Kong Dan (b. 1947) whose father, Kong Yuan (1906–90), was former head of the CCP Investigation Department and his mother was the personal secretary (*mishu*) of former premier, Zhou Enlai (1898–1976).

Another example is Polytechnologies Inc. (later called China Poly Group Corporation) which was established in 1983 under the control of the People's Liberation Army. The company has been staffed by generals and colonels who are close relatives of party leaders. These include the son-in-laws of Deng Xiaoping (He Ping), of former CCP party secretary Zhao Ziyang (1919–2005) (Wang Zhihua), and of former president Yang Shangkun (1907–98) (Wang Xiaochao). From 1993 to

2007, Wang Jun (chairman of CITIC) was also the chairman of China Poly Group Corporation, and He Ping (b. 1946), the general manager. He was made chairman when Wang Jun resigned in 2007.

Another example worth mentioning is the Kanghua Development Corporation (Kanghua), which was founded in 1984. Headed by Deng Pufang (b. 1944), son of Deng Xiaoping, Kanghua was quickly turned into Deng Pufang's private club which recruited many princelings and personal friends to make huge personal fortunes. It was estimated that Kanghua had over 200 princelings as its managers and representatives at its climax (Cheng, 2001). Some princelings later moved to prominent political leadership posts. For example, Kanghua's general manager, Yu Zhengsheng (b. 1945), a son of Huang Jing (1912–58), former Mayor of Tianjin and also brother of one of Deng Pufang's elementary school classmates, later became party secretary of Hubei and is now party secretary in Shanghai.

Needless to say, such a high degree of nepotism, together with little separation between the state and the enterprises, meant the bureaucratic bourgeoisie enjoyed particularistic access to the state apparatus and national resources in the creation of their wealth. The major beneficiaries of this system were almost exclusively those related to or within the political networks of princelings constituted by several key family conglomerates, such as the Wang, the Deng, and the Zhao families. In the late 1980s, the wider public began to realise that a small circle – a bureaucratic bourgeoisie – were taking advantage of the new market opportunities and making huge pecuniary gains while those outside the networks were left behind. Rampant official profiteering (*guandao*) became a major motivation for millions of people all over China to take to the streets in May and June 1989.

It came as no surprise that when Jiang Zemin chaired his first Politburo meeting in late July 1989 that he issued a seven-point circular formally banning the children and spouses of senior cadres from operating companies. One month later, Deng Pufang became the most spectacular princeling being tripped up and reported in the official media. Kanghua was closed down with a fine of US$3 million, and the case was widely reported in the *People's Daily* in late August 1989. However, it became apparent that Deng Pufang was more a show case than a harbinger of any real effort to crackdown on corruption and cronyism. In fact, Jiang's edict quickly lost its legitimacy as the 1990s witnessed the emergence of an even more powerful, both politically and economically, bureaucratic bourgeoisie stratum which was constituted by children and protégés of the nation's leaders. What remains the same about this small circle of well-connected elites was that they are in control of many wealthy enterprises which have little separation from the state. The following cases outline the rise of three prominent bureaucratic capitalists in post-Deng China.

Bureaucratic Capitalists in the Post-Deng Era

Jiang Mianheng: "Shanghai's King of IT"

Jiang Mianheng (b. 1952) is the elder son of Jiang Zemin. Born in Shanghai, Jiang obtained his bachelor's degree in nuclear science at Shanghai's Fudan University in 1977, and a master's degree in semiconductor material studies at the Chinese Academy of Sciences (CAS) in Beijing in 1982. After working for some years at the

Shanghai Institute of Metallurgy (SIM) – one of over 100 research institutes affiliated with the CAS, – Jiang began to pursue his doctoral studies in the USA in 1986. Five years later, he graduated from Drexel University with an electrical engineering doctorate. Before re-joining SIM as a scientist in 1993, he worked at the Hewett Packard Company in Palo Alto, California for postdoctoral training. In 1994, having no experience in management and presumably little capital and no financial credentials, he became the director of Shanghai Alliance Investment Ltd. (SAIL). The company was established by the Shanghai municipal government in September 1994 with a registered capital of US$200 million. Three years later, Jiang was also promoted to director of SIM, virtually without having made any significant contributions to science. Since then, he has become an active cadre-cum-entrepreneur. At SIM, he was a scientist, but at SAIL he was actively seeking opportunities to expand his business empire and invest in key municipal telecommunications projects. For example, through holding major shares in Shanghai Information Investment Corporation, SAIL was involved in a US$8.5 billion project to improve Shanghai's information technology infrastructure for telecommunications, the Internet and cable networks in Shanghai, as well as the country's first cable networks which could offer cable television, Internet access and telephone services in the early 2000s (Harwit, 2005).

In 1999, Jiang was once again "parachuted" in to become vice-president of CAS, and once again his promotion was without any basis in contributions to scientific research. One should be reminded that CAS, often misconceived as a semi-independent scientific think-thank, is a significant part of the state apparatus with exceptionally close military ties. In an interview in 2003, Jiang revealed that *once* he became vice-president of CAS he was entrusted with a space exploration project of which he had no professional knowledge (*Guangming Daily*, 2003). Also in 1999, China Netcom was founded. Although Jiang was only a board member, he was recognised as the real head of the company. Two years later, China Netcom obtained a US$300 million investment from Goldman Sachs and the media tycoon Rupert Murdoch in an obvious breach of the country's ban on overseas equity in the telecommunication sector. This investment quickly paid off when China Netcom became the major beneficiary of the new restructuring plan promulgated toward the end of 2001. The plan included a project to inject the network assets of ten northern provincial regions of China, and the whole business of Jitong Communications Corporation (Jitong) into China Netcom. Jitong was a state corporation authorised to carry out communications research and product development, and build, operate and manage information network services throughout China. Consequently, by mid-2002, China Netcom – only three years after its foundation – became the third biggest telecommunications operation holding 30% of the national truck line transmission network assets. In 2004, China Netcom was listed both on the Hong Kong and New York stock exchanges. Although later taken over by China Unicom, allegedly due to a failed political struggle, by 6 October 2008, the last trading day of China Netcom in both markets, the company was worth US$25.9 billion. Just to give readers a rough idea of how rich a bureaucratic capitalist could be, if Jiang Mianheng were able to cash in, say, 12% of China Netcom on its last trading, he would be the wealthiest man in the 2008 *Forbes'* list of Chinese tycoons.

Li Xiaopeng: "King of the Asian Power"

Li Xiaopeng (b. 1959) is the elder son of former premier Li Peng (b. 1928) who, like Jiang Zemin, was one of the hard-line victors who put down the 1989 uprising. It is a well-known fact that the electricity industry is the traditional power base of Li Peng, who was trained in hydroelectric engineering in Moscow in the late 1940s. He began his career in power sector administration, eventually becoming chief of the Ministry of Electric Power in 1983. It is thus no coincidence that his son Li Xiaopeng was trained in electrical engineering. After he graduated from North China Electric Power University in the late 1970s, Li Xiaopeng began to work as an engineer in state institutions. In 1991, Li joined Huaneng International (Huaneng) as an assistant to the general manager. Since then, Huaneng has grown at an astonishing pace. It was first listed on the New York stock exchange in 1994, then in Hong Kong in 1998. By the end of 1999, Li Xiaopeng was the general manager and board chairman. Under his leadership, Huaneng completed the acquisition of New York-listed Shandong Huaneng in a US$730 million deal the next year. Huaneng then became and still is the largest of the five independent power producers (IPPs) in China. Since then, Li Xiaopeng has been known as the "King of Asian Power."

The "independent" status of Huaneng is questionable as it is widely believed to be a virtual family enterprise under the control of the Li family. In November 2001, an intriguing article entitled "Huaneng, the Magic" was published in a leading Chinese financial journal (*Securities Weekly*). The author – who was later arrested – hinted that Li Xiaopeng and Zhu Lin (Li Peng's wife) had control over Huaneng and were profiting from their powerful connections. The article also cast doubt on how Huaneng could have passed through the administrative hurdles to be listed in the USA and then Hong Kong without strong political patronage.

Closely related to Li Xiaopeng in the electricity industry is his sister, Li Xiaolin (b. 1961). She is currently chair of another IPP called China Power International Development (China Power). China Power has been listed on the Hong Kong exchange since 2004. In addition, Li Xiaolin is chair of another Hong Kong-listed company, China Power International New Energy Holding Ltd. In 2008, Li Xiaolin was named one of the International 50 Most Powerful Women in Business by *Fortune*. To date, and only taking into consideration the valuation of the listed companies mentioned above, the Li family is said to control total assets worth nearly US$14 billion and as much as 15% of the electricity generation capacity in China (Oster, 2006).

Li Xiaopeng is also progressing well in his political career. In 2007, he was elected as the alternate member of the Central Committee in the 17th CCP Congress. The next year, he made a surprising move when he stepped down from the chairmanship of Huaneng and became deputy governor of Shanxi Province – an area where there is rich deposits of coal whose market price is vital to the production cost of electric power. The move was unanticipated as the board of Huaneng only approved a new term of Li Xiaopeng's chairmanship one month before he moved to Shanxi. It is expected that Li will progress to full membership of the Central Committee in 2012, and member of the Politburo in 2015.

Hu Haifeng: Chief of Tsinghua Holdings

Hu Haifeng (b. 1971) is the son of Hu Jintao. Like his father, Hu Haifeng graduated from the prestigious Tsinghua University in Beijing. After graduation with a master's degree in engineering physics in the mid-1990s, Hu Haifeng joined NucTech as an assistant to the general manager. Under Tsinghua Holdings, NucTech is a world-leading company on manufacturing high-technology products, including scanners for shipping, trucking containers and railway cars, and luggage scanners and metal detectors for airports. Since Hu Haifeng became NucTech's president in the early 2000s, the company was granted a near monopoly by the central authorities for selling security equipment to airports in China.

Hu Haifeng did not attract much public attention until 2009 when his name was connected to a corruption case. In 2007, Nuctech won a US$55.3 million Namibian contract for airport scanners. Later, a report by Namibia's Anti-Corruption Commission discovered that US$12.8 million of payments for the deal were diverted from Nuctech to a Namibian consulting firm. This has resulted in speculation that that consulting firm helped NucTech win the large government contract through bribery. Before the news was made public, Hu was made Party Secretary of Tsinghua Holdings in 2008. Tsinghua Holdings was founded in 2003 when Hu Jintao was garnering supreme power in the party-state. The State Council approved the establishment of the company with a registered capital of US$243 million. Tsinghua Holdings currently oversees over 20 state-held high-technology firms spun out of Tsinghau University, and NucTech is one of them. Following the whiff of corruption, Hu Haifeng moved away from business and ostensibly quit all his business positions in October 2009 and he was appointed Deputy Secretary-General of Tsinghua University.

A Synoptic View

What have we observed from the rise of the bureaucratic bourgeoisie? One observation distilled from the above stories is that increasing financial marketisation of bureaucratic corporations on foreign and local stock exchanges has not only rapidly multiplied the size of assets controlled, but also allowed more room for the bureaucratic bourgeoisie to control the state-backed corporations and manage them like private firms.

Besides, it is increasingly apparent that the children and relatives of top leaders are more likely to be protected than punished in the face of corruption charges. Unlike the allegations regarding Deng Pufang which led to the dismantling of Kanghua during the Deng period, no verdict was made openly against the young Jiang, Li and Hu. This political logic of bureaucratic capitalism in the post-Deng era can be further illustrated by the allegation regarding Li Xiaopeng's misuse of public funds in 1999. Under the instruction of Zhu Rongji (b. 1928), premier at the time, the state council unprecedentedly announced a report regarding the financial problematic behaviour of 53 State Council units, and Huaneng was found to be involved in misappropriating US$8 million of public funds. However, Li Xiaopeng was well protected as both his business and political career has continued to progress since then.

Another observation is that powerful bureaucratic bourgeoisie seem to be able to enter the economic realm and return to the centre of politics as smoothly as they wish. At the time when Deng Xiaopeng was in power, no one would expect to see sons of revolutionary veterans participate in high-level politics or attain high-level political posts. However, astute commentators have explained that, for example, Jiang Mianheng's repeated attempts to be elected to the CCP Central Committee and the surprising move of Li Xiaopeng to be Deputy Governor of Shanxi were attempts to enter the Politburo in the future. They seem to understand that a higher post in the political ladder not only provides a stronger boost for their business empire, but also makes the economic wealth under their control more secure.

To speak of the possibility that entrepreneurs can become top political leaders harks back to the ideological slogan of the "Three Represents," first introduced by Jiang Zemin in February 2000, and which became the guiding ideology of the CCP at its 16th Congress in 2002. Insisting that the "Three Represents" be put into the constitution before he stepped down from the post of Party Secretary, Jiang Zemin essentially suggested an ideological shift, jettisoning the proletarian roots of the CCP and seeking a broader appeal by representing wealthy capitalists. In retrospect, Jiang's shift is also an ideological legitimisation of the bureaucratic bourgeoisie as it is brought into the political centre; of course, it included his own son.

The Future of Factional Politics

What are the implications of the rise of bureaucratic capitalists for future factional politics? First, there is likely to be a persistence of rampant corruption at the top political level. As the market is increasingly controlled by the bureaucratic bourgeoisie with tight links to powerful "family-controlled conglomerates," the separation between the public and the private is likely to be even more blurred. Having been the vanguard of China's pioneering transition towards the market economy, the offspring and protégés of the highest leaders of the CCP are motivated to use the vast sums of capital under their control to consolidate political power and to ward off attacks from opposing political factions. In fact, to use money to buy political loyalty is driven not only by parochial political interest, but also by the very institutional arrangement where the political structure and the market opportunity are closely linked. Undoubtedly, such a concentrated and linked nature of political institutions and economic opportunities will motivate the use of public office for private gain.

The second implication is that particular reform policies, anti-corruption measures, and even economic and corporate decisions will be increasingly used as political weapons in high-level factional politics. As more and more market sectors are penetrated by the coalition-specific bureaucratic bourgeoisie, any single economic measure could be taken as a political move, offensive or defensive, to strengthen alliances and threaten or weaken opponents. In fact, high-level political infighting in the economic field is no longer new in post-Deng China. A typical case is the political struggles between Zhu Rongji and Li Peng back the early 2000s when Zhu was premier; and Li, chairman of the National People's Congress. In 2001, several high officials in banking and finance who ascended under Zhu Rongji were prosecuted. One of the most important cases was the arrest of Zhu Xiaohua, former chief of the state-backed financial corporation Everbright Group, who was sentenced to 15 years in prison for taking bribes. One year later, Zhu Rongji ordered a corruption investigation into the former head of the State Power Corporation, Gao Yan, who was widely known to be a Li Peng protégé. Gao reportedly fled the country in September 2002.

Finally, what has been highlighted in the foregoing discussion is the "return-route" of the bureaucratic bourgeoisie to central politics. Today, it is too early to say if Jiang Mianheng, Li Xiaopeng, or Hu Haifeng will become Politburo Standing Committee members or even party secretaries in the near future. However, at the heart of factional politics under bureaucratic capitalism is a tension between the interests of the public and that of powerful families and the conglomerates they control. And, this tension will prompt the powerful bureaucratic capitalists from different political factions to get involved in the "king-making" process, if not actually being the "king" themselves. No matter who is the future "successor" of any CCP party secretary, s/he must in one way or another yield to the power of the bureaucratic capitalist families, or even make promises to further their interests. This is because to do otherwise will doom the candidate for that position. The negative social consequences of this system can be far-reaching as the present system is likely to bolster and sustain the privileges of a small number of wealthy families, which creates a social triage that produces enormous inequalities between the privileged minority and the disadvantaged majority. An official report has already revealed that 90% of Chinese billionaires are children of high-ranking party officials. And, the richest among them are the princelings who used their position to pass the laws that have made public resources available for private gain (see Kwong, 2006).

In sum, this commentary has argued that there exist a small number of wealthy bureaucratic capitalists who are protected by their politically powerful fathers or patrons, and some who are ready to surrender their business positions and take up top political posts. Although this commentary has covered only a small part of the topic, it represents a microcosm of core tensions that need to be mentioned when discussing future factional politics in China. Everybody knows that to develop a "harmonious society" is the signature ideology of Hu Jintao since he took supreme power in 2004. However, as the market is now controlled by a powerful bureaucratic bourgeoisie and is increasingly subject to a political tug-of-war, the CCP, while constantly talking about "harmony," simply cannot provide it.

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