

Dual Transitions in Reformed China: Property Rights and the Case of *Zhongguancun**

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ABSTRACT

The resilience of the communist regime in China has been a puzzle in the study of dual transitions. By examining the property rights regime in China's high-tech sector, this article argues that the reason for China's extraordinary economic growth without political liberalization lies in the process of the reassignment of property rights. With a view to helping state agencies avoid financial difficulty, high-tech spin-off enterprises and their associated hybrid property rights regimes created space for the old authority structure to remain in place. In particular, these spin-off enterprises never cut their ties with the state. While such a strategy has proved effective in discouraging the state's predatory behavior in the course of market transition, it is the cause of the enduring influence of the Chinese state on these enterprises. Given the nature of state-market interactions

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in technology-related industries, the study of high-tech spin-offs in Zhongguancun serves as a critical case to understand the change in power structure associated with the reassignment of property rights. Most importantly, the findings of this article carry implications for understanding the politics of dual transitions in China.

Keywords: political economy, property rights, dual transitions, Zhongguancun, China

I. Introduction

Dual transitions, known as economic liberalization and political democratization, have long been the central agenda in the study of transition economies.¹ The primary concern for dual transitions is the neoliberal belief that economic liberalization changes the distribution of power in society and eventually leads to political democratization. There are two versions of power redistribution in the academic discussion. One claims that the working class plays a pro-democratic role in neoliberal economic reform² while the other one contends that economic development and democracy are primarily associated through the expansion of the middle class.³ Yet, the resilience of the communist regime in a reformed China may suggest an exception. Not only does the ever-growing Chinese

¹ See, for example, Przeworski (1991); Encarnación (1996); Przeworski, Alvares, Cheibub, and Limongi (2000); Acemoglu and Robinson (2005). The relationship between authoritarian rule and market reforms in Latin American countries is usually included under the topic of “dual transition,” for example see González (2008).

² See, for example, Rueschemeyer, Stephens, and Stephens (1994).

³ See, for example, Moore (1966).

economy fail to lead to political change, but also the governance of the Chinese Communist Party (CCP) is even further strengthened through inner-party reform. (Shambaugh 2008). Why does economic liberalization not go hand in hand with political democratization in China as the dual transitions literature suggests?

Apart from the early optimism for dual transitions in China in the 1990s,⁴ a number of scholars provide various explanations for the lengthy lag between economic development and the emergence of political liberalization in China from a political economy perspective. Mary Gallagher argues that the way that China introduces foreign direct investment (FDI) has delayed social demands for political liberalization. By focusing on the timing and sequencing of FDI liberalization, she finds that the Chinese state successfully segments social discontent, especially among workers, from the political authority (Gallagher 2002). Yet, in considering that the study only concentrates on the impact of FDI, it needs to be noted that not every enterprise in China has foreign capital. In the high-tech sector, as is the case in this article, the Chinese state invests in the majority of enterprises (Lu 1999), and at least has done so since the first half of the reform period.

Instead of examining the relations between the working class and the communist state, scholars of Chinese political economy also focus on the middle class. Kellee Tsai suggests that although the number of Chinese capitalists has grown substantially since the reform, there is a lack of class identity among these capitalists and thus a lack of collective action to make demands for democratization. Moreover, their economic interests are improved under CCP rule. As such, she contends that Chinese capitalists are

⁴ See, for example, White, Howell, and Sheng (1996); He (1997); Gold (1998).

actually the allies of the CCP authoritarian regime (Tsai 2007). Based on a relatively long-term empirical study, Bruce Dickson shows that Chinese capitalists are incorporated into the CCP's "crony communism," a political system that provides capitalists with political protection and opportunities for economic prosperity. This is the surviving strategy for the CCP to confront potential discontent from the private sector (Dickson 2008). In the meantime, Jie Chen and Bruce Dickson demonstrate that private entrepreneurs hold positive attitudes towards CCP governance and are less likely to become agents of political change (Chen and Dickson 2010).

While the preceding studies provide rich details about the Chinese capitalists and their relations with the Party-state, they barely analyze the evolution of China's unique property rights regime and its effect on the Chinese capitalists' political propensity. Nonetheless, the arrangement of property rights is one of the essential institutions that define the relations between the state and its people and has been a crucial topic in the political economy debate since John Locke (Macpherson 1978). More to the point, it is the change in property rights regimes that makes the emergence of capitalists in China possible. In an attempt to fill the theoretical gap, this article focuses on the evolution of property rights regimes in the high-tech sector in Beijing and explores the political implications of partial reform for dual transitions in China.

The central argument of this article is that the explanation for modernization without liberalization in contemporary China lies in the process of reassigning property rights. As an initial response to save state agencies from financial constraints in the early reform period, high-tech spin-off enterprises were created with a hybrid form of property rights, known as a partial reform, that was characterized by elaborate ambiguity. Compared to other transitional

economies, this plurality of ways of reassigning property rights, which exists not only in the high-tech sector but also in many other industrial sectors across China, has the advantage of mobilizing material and human resources, as well as reducing institutional uncertainty in the process of economic reform. However, in creating the incentive for political actors to move the Chinese economy towards liberal capitalism, the strategy of partial reform has failed to completely change the power structure of Chinese society, which is supposed to take place during the process of neoliberal reform. As a result, the partial redistribution of power, which has come after partial privatization, has consolidated rather than weakened the state's ability to intervene in the market and has hindered the possibility of democratization in China.

This article uses the high-tech park in Beijing, the *Zhongguancun* Science Park, as a case study to explain the Chinese exception from the design of property rights regimes.⁵ Two competing assumptions make the high-tech sector a worthy case with which to probe into the possibility of a dual transition in a transitional economy, in general, and in the case of China in particular. On the one hand, given the impact of rapid technological innovation and development, the high-tech sector is one of the industrial segments that is most sensitive to market pressures. Faced with this substantial volatility in the market place, states often encounter tremendous barriers to intervene and regulate markets, both globally and domestically. This is especially true for China, a country that has attempted to move away from being a planned economy. Thus, we have good reasons to anticipate that the market

⁵ *Zhongguancun* was the first science park in China that later became the model for the development of high-tech industries in other localities.

would prevail over the state in the high-tech sector. On the other hand, given that the development of technological capability has broad implications for military renovation and security, the state may have little motivation to lift its controls over the high-tech sector. Beijing's reluctance to engage in full-scale privatization reflects such military and security concerns. As a rising power in international politics, technological progress has provided the Chinese state with the means to enlarge its sphere of influence (Segal 2005). Therefore, it is also reasonable to expect that the Chinese state is striving to preserve its active role in shaping the technology market. Nonetheless, the Chinese state is confronting a dilemma in motivating its technological development without compromising in terms of its intervention. In short, I use the high-tech sector in Beijing as a critical case to examine how the hybrid property rights regime leads to the interactions between the state and the market that we have seen in the reformed China. In addition, provided that spin-off economic entities are a common phenomenon in the Chinese urban economy, the study of high-tech spin-off enterprises in China serves as a microcosm to analyze the change in power structure associated with the reassignment of property rights.

The organization of this article is as follows. This article begins with a brief account of the origin of high-tech spin-off enterprises in China with a focus on *Zhongguancun* in Beijing. Next, it examines the ownership structure between parent agencies and high-tech spin-off enterprises. From a comparative perspective, this arrangement of property rights stands in stark contrast to the other context of property rights reform like that of Eastern European economies. This places the innovative arrangement of property rights in China's high-tech industry under theoretical scrutiny, which demonstrates that the process of reassigning property rights

has left room for the old power structure to remain in place. Finally, from the case study on the high-tech sector, this article extrapolates a general scene of dual transition in contemporary China.

II. A Brief History of China's Silicon Valley: *Zhongguancun* in Beijing

It is important to clarify at the outset that the reassignment of property rights in reformed China was expedient in tackling the deteriorating economy after the Cultural Revolution. The evolution of the Chinese high-tech sector is no exception. Without a blueprint in advance, the process of Chinese reform is usually described as “groping for stepping stones while crossing the river.”⁶ Nevertheless, although Chinese economic reform is exploratory in nature, while aiming to solve a short-term economic crisis reform strategies have had a long-term impact on the direction of reform in the later stages and thus on the distribution of power in Chinese society. Therefore, in the following pages when the word “design” is used it means an experiment rather than any elaborate plans for economic development.

To trace the origin of high-tech spin-off enterprises in China, we need to look at a broader picture at the outset of economic reform. In the late 1970s, Chinese leaders who were struggling for strained financial resources promoted the strategy of “increase revenue and save expenditures” (*zengshou jiezhi*). Creating “backyard profit centers” was the most common way for various state agencies to deal with declining public funding (Lin and Zhang 1999). The phenomenon of backyard profit centers indicates that

⁶ This exploratory nature of Chinese economic reform is best captured by Naughton's argument of “growing out of the plan.” See Naughton (1995).

state agencies established and sponsored profit-seeking economic entities (*jingji shiti*) to create a source of income under the pressure of self-finance. Despite their differences in size and business nature, these economic entities share a common feature in that they are created as private firms by public assets owned by their parent state agencies (Lin and Zhang 1999). While nearly every type of Chinese state agency rushed to set up their private ventures, it was well recognized that the creation of backyard enterprises was a nationwide tendency in the early years of reform. The most famous case is the People's Liberation Army's (PLA) involvement in various commercial activities ranging from the arms industry to non-military goods such as Chinese herbal medicines (Bickford 1994).⁷

From the beginning, China's high-tech sector was dominated by spin-off enterprises first created by universities and research institutions in Beijing (Francis 1999).⁸ As state funding for Research and Development (R&D) declined in the early 1980s, these high-tech spin-off firms became a major way to increase resources from sources other than the state budget to support the operation of universities and research institutes. The reason behind this development is not hard to understand. Given the existing resources of laboratories and the skilled personnel with technological know-how, these parent state agencies have enormous advantages in terms of market entry in launching high-tech firms. For example, Lenovo (formerly Legend; *Lianxiang*) was set up by the Chinese Academy of Sciences (CAS) and Founder (*Fangzheng*) was formed by Beijing University.

⁷ Nonetheless, the PLA has divested itself from commercial activities since the 1998 ban.

⁸ For a detailed history of Beijing high-tech firms, see Segal (2002).

In addition to the cost advantage mentioned above, state policies that support technological development also facilitate the prosperity of these high-tech firms. In most cases, the initial investment in these high-tech spin-off firms came from their parent agencies. However, the capital shortages faced by parent units often made it difficult for them to continue their sponsorship. Moreover, as non-governmental enterprises, these firms were not eligible for funding from the central government or bank loans before 1985. Given this situation, local governments usually played a critical role in fundraising (Segal 2002). Later, with a greater awareness among Chinese leaders of the importance of high-tech industries in the global economy, the Chinese central government launched two national plans to encourage technological innovation, namely, the 863 Program in 1987 and the Torch Plan in 1988. While the 863 Program aimed to promote technological research and capability, the Torch Plan sought to commercialize research products to broaden resources for new start-ups in later stages (Qin 1992).

Following these two national projects to accelerate China's technological progress, the State Council ratified the establishment of the Beijing Experimental Zone for New Technology and Industrial Development in Zhongguancun, Haidian District, in 1988. First dubbed as "Electronics Street" (*Dianzi jie*), Zhongguancun was home to most of the high-tech firms spun off from Beijing University, Tsinghua University and CAS. With Silicon Valley of the United States in mind, Chinese policy-makers designated Zhongguancun as a science park in 1988.⁹ Under this framework, technology enterprises in Zhongguancun enjoy tax breaks and have

⁹ Cao notes that by the end of 1998 China had 53 high-tech science parks. For a detailed account of the evolution of the Zhongguancun science park, see Cao (2004).

easy access to bank loans. These preferential policies have laid the groundwork for the impressive performance of Chinese technology firms in both the domestic and global markets.

III. The Hybrid Property Rights Regime in the Chinese High-Tech Sector

From the start, it is clear that the Chinese high-tech industry, like many other sectors in China, did not experience a systematic privatization and the Chinese state played an active role in the development of the industry.¹⁰ In this section, I examine the arrangement of ownership between the parent agencies and high-tech spin-offs and explore the strength of the hybrid property rights regime from a comparative perspective. Because a secure property rights regime ties the predatory hands of states and other private parties (Grief 2006), it is generally held that well-defined property rights are required for encouraging profit-seeking individuals to invest their resources to maximize economic efficiency (Caporaso and Levine 1992). Under this tenet, unclear and insecure property rights regimes would upset voluntary exchanges in markets and hinder economic growth. Therefore, in the contemporary context, privatization becomes the prescription held by Western advanced countries to approach transition economies (Stiglitz 2003). Yet, at the same time, China's impressive achievement of economic growth casts doubt upon this belief. Hybrid property rights regimes in China's high-tech sector can best illustrate this point.

Diversification in property rights in the high-tech industry

¹⁰ According to one report, 95 percent of all technology developed by spin-off enterprises in *Zhongguancun* originated from a state-owned unit. See Segal (2002).

reflects the process of “hollowing out” public assets (Walder and Oi 1999).¹¹ As noted earlier, spin-offs were the tool for state agencies to seek additional funding under the state budget constraint and, therefore, most high-tech enterprises gained their start-up investment from their parent agencies. In this process, two factors lead to the formation of hybrid property rights regimes. On the one hand, during the time when these spin-offs proliferated, the legal status of private firms was still a sensitive and controversial issue in domestic ideological debates. Registering spin-offs as collective enterprises was a common strategy, a process known as “wearing the red hat” (*dai hongmaozi*) (Young 1995), adopted by state agencies, even though these spin-offs were designed to run as private sector enterprises outside the state planning system. Nominally collective status was helpful for spin-offs in accessing bank loans, government contracts and preferential treatment. Moreover, despite the issue of initial investments, the founders of these spin-offs were all employees of the parent institutions when they were founded.¹² These dual identities also complicated the ownership claims between spin-off firms and their original agencies.

On the other hand, given that there are no legally well-defined property rights concerning the spin-offs’ assets, the reassignment of property rights in the Chinese high-tech sector was determined through bargaining between spin-offs and parent agencies. That is, property rights were treated as a “bundle of rights” (Barzel 1997) in

¹¹ For a detailed history of Beijing high-tech firms, see Segal (2002).

¹² For example, Lenovo was founded by a group of 20 researchers of the CAS in 1984, and many of them still retained their positions in their sponsoring units subsequently. Therefore, public opinion has generally held that these founding members’ capacity as CAS employees was a plus to earn public trust when doing business. For details of Lenovo’s corporate development, see Lin (2006).

which parent units and spin-offs compete over the rights for residual income and the rights of management, with no uniform ownership structure emerging. The outcome of the reassignment of property rights depends on the bargaining power of both parties regarding the amount of initial investment and the spin-off's level of productivity (Francis 1999). For instance, the tension between Beijing University and Founder in late 1980 stemmed from their different appraisals of the initial funding. In this respect, while Beijing University asserted that its initial investment was essential to Founder's success, the entrepreneurs of Founder considered it to be a short-term loan rather than a long-term investment (Wang 2012). In order to protect its claim over the firm's property rights, like Lenovo, Founder sought to be listed on the Hong Kong Stock Exchange to raise capital. It is demonstrated that when firms' property rights are in an insecure situation due to government inaction, the firms themselves could protect their property rights from potential predators by allying with other actors who also have a stake in such security (Markus 2012). Seeking an overseas listing is a wise strategy used to involve foreign regulators and foreign investors in the game.

From the discussion above, it is not surprising to find that many famous high-tech companies like Lenovo are categorized as state-owned enterprises (SOE) or state-controlled enterprises, since CAS holds majority stocks in these enterprises. Even though Lenovo experienced a restructuring program in 2009 as a result of which CAS's Lenovo share decreased from 65% to 36%, CAS still holds the largest share. Founder and Tongfang have similar ownership structures, in which Beijing University and Tsinghua University are the largest shareholders of the firms, respectively. Because high-tech spin-offs functioned as "backyard profit centers" to support parent state agencies through financial difficulty and continued to earn

lucrative financial gains afterwards, the parent units did not intend to privatize the firms. Up to now, many of these spin-offs are still characterized by their hybrid ownership structures. Such complex ownership arrangements are one of the main causes of the disputes between spin-offs and their parent agencies. However, compared to traditional SOEs,¹³ these high-tech spin-offs have a much lower percentage of state shares—a product of bargaining over the reassignment of property rights between the parent agencies and the spin-offs. These spin-offs are not under the jurisdiction of the state asset management system and thus have substantial autonomy to manage their businesses and to claim property rights.

What does the hybrid form of property rights in the Chinese high-tech sector reveal from the perspective of political economy? There are two contending judgments. One of them criticizes ill-defined property rights for discouraging entrepreneurs from technological innovation. Following the conventional view of institutionalist political economy (North and Weingast 1989), this perspective worries that the profit-sharing arrangement between parent agencies and enterprises is not sufficiently conducive to realize their growth potential (Cao 2004). Such a contention, however, is misleading if not wrong altogether. It may correctly express worry over the sustainability of growth in the future, but it fails to capture the fact that the number of high-tech companies and their revenue has grown rapidly since the *Zhongguancun* Science Park was established in 1988.¹⁴ Moreover, while the number of new enterprises has decreased since 1993, the productivity of the high-

¹³ For in-depth analysis of SOE reform in China, see Steinfeld (1998); Oi (2011).

¹⁴ Administrative Committee of *Zhongguancun* Science Park. 2010. “*Zhongguancun* keji yuanqu 1988-2007 nian zhuyao tongji shuju, 1988-2007”. <http://www.zgc.gov.cn/tjxx/nbsj/2007nyqsj/59902.htm> (August 3, 2012).

tech industries has improved.¹⁵

The other judgment praises the ambiguity in spin-offs' property rights due to their advantages in contributing to economic efficiency in ways such as lowering the risk of the spin-offs' market entry and the rapid transfer of human and capital resources from sponsoring institutions to spin-offs (Francis 1999). Yet this is an incomplete articulation. For this contention to be valid, it is important to examine why state agencies allowed such hybrid assignments of property rights to emerge in the first place. That is, given that officials in state agencies control key resources like human capital and technology in the beginning, what explains officials' incentives to support spin-offs' claims over profits when they still have the ability to take over all revenues generated by spin-offs? To put it more precisely, why were state agencies not predatory when they were experiencing financial difficulty? These inquiries can be best approached based on a comparative analysis, by comparing China with Eastern Europe.

Shock therapy, a reform strategy exercised by Eastern European transition economies, is based on the free market mantra stressing the importance of private ownership in facilitating voluntary market exchanges and in developing economic efficiency and growth. From this point of view, rapid privatization is the only way to avoid the inefficiency inherent in a command economy. Proponents of gradual reform, on the contrary, suggest that reform should be an evolutionary process which would pave the way for capitalism to

¹⁵ Administrative Committee of *Zhongguancun* Science Park. 2011. "2011 nian zhongguancun guojia zizhu chuangxin shifanqu jingji fazhan zongshu" [Economic Development Report of *Zhongguancun* Science Park, 2011]. http://www.zgc.gov.cn/tjxx/nbsj/2011nsj_nb/82440.htm (August 3, 2012).

take roots.¹⁶ To suggest that the gradual nature of Chinese reform, contrasted with the shock therapy in Eastern European postsocialist countries, leads to successful economic development is nothing new. What deserves more attention is how the experimental process of Chinese reform overcomes the agency problem,¹⁷ namely, state predation, which is prevalent in Eastern European transition economies.

To assess the incentive structures of two different reform strategies and their associated agency problems, it is important to realize that economic reforms have impacts on the distribution of wealth, which further alters the distribution of power in the political arena. Generally speaking, state bureaucrats who were beneficiaries under the old commanding system would be worse off under the alternative institutions and would thus oppose economic reform. Winiecki's observation of East European transition economies notes that "[A] shift of activity from the state to the private sector reduces the possibilities for party *apparatchiks* and economic bureaucrats to extract rent. Hostility towards the private sector is...based on gains foregone when expansion of the state sector is curbed in favor of the private sector (Winiecki 1996)." In the meantime, these economic bureaucrats who suffer from creating private property rights have the advantage of information to evade monitoring by the central government that initiated the reform. Together with the concern for

¹⁶ For an extensive discussion of "shock therapy vs. gradualism," see Stiglitz (2003).

¹⁷ Eggertsson states that "an agency relationship is established when a principal delegates some rights – for example, user rights over a resource – to an agent who is bound by a (formal or informal) contract to represent the principal's interests in return for payment of some kind." See Eggertsson (1990). In the case of China's high-tech spin-offs, the parent agencies such as CAS are the principals, and the spin-offs such as Lenovo are the agents.

rent extraction, this bureaucratic advantage has been demonstrated as the crucial cause of reversals in reform, or what Winiecki calls the “counterreformation” course (Winiecki 1996). For instance, Solnick’s study of Soviet Union reform shows that information asymmetries between the bureaucracy and the central government resulted in opportunism, which hindered bureaucrats from implementing reform policies effectively (Solnick 1999).

However, why is the agency problem not so acute as in the process of China’s transition? It is usually suggested that the strategy of partial reform has contributed to China’s economic growth. Yet, this claim is oversimplified. Partial reform *per se* does not determine the fate of economic reforms, and it also faces agency problems. For example, Hellman’s study of partial reform suggests that this reform strategy tends to create net winners who benefit from market distortion in the early stage of the reform process. As the reform proceeds, the gains of these winners are expected to be reduced due to the soundness of market mechanisms. Therefore, these early winners have the incentive to block a full-blown market reform (Hellman 1998). If the partial reform strategy also faces the agency problem, the key to the success of the Chinese reform must lie in the incentive structure that inhibits any form of predation from occurring.

Based on studies on property rights reform in various sectors in China, Oi and Walder argue that the proposal for reform should involve the design of incentives for both firms and governments (Walder and Oi 1999). In other words, the preferences of state officials have a decisive impact on the direction of the reforms. To provide officials with a new set of incentives is the key to persuading them to make a break with the past model of rent extraction. As we have already seen in the case of the Chinese high-tech sector,

state agencies that were confronted with strained state budgets at the outset of the reforms created spin-off firms in order to pursue financial survival. These parent agencies have a substantial stake in the enterprises' prosperity. Between the original state agencies and their spin-offs, "mutual dependence rather than predation is a more apt description of the relationship (Oi 1999)."¹⁸ Without a zero-sum competition over spin-offs' profits, the hybrid property rights regime and the ensuing profit-sharing system make both parties better off.

In sum, because the reassignment of property rights in the course of economic reform changed the distribution of power among related parties, the parties that monopolized economic rents under the old planning system felt motivated to resist a privatization program as their best solution or to stall the reform process as their second best solution.¹⁹ In this respect, China's economic reform in general and its high-tech sector's privatization agenda in particular demonstrate that resistance to reform is not inevitable. The innovative hybrid property rights regime without full privatization guaranteed the parent agencies' financial survival.

In this sense, the associated incentive structure transformed the role of these parent agencies into the shareholders of their high-tech spin-offs, a relation that Oi first finds in the interactions between local officials and their enterprises, known as township-and

¹⁸ This is Oi's observation concerning the relationship between local governments and rural industries.

¹⁹ Winiecki argues that even though the best solution for economic bureaucrats to protect their rents under the central planning system is to resist the privatization agenda completely, they might seek to abort the reform as their second-best choice. In this way, economic bureaucrats can still gain rents from a distorted market. A similar argument can be found in Hellman's work on partial reform equilibrium. See Winiecki (1990); Hellman (1998).

village enterprises (TVEs) (Oi 1999). Nonetheless, compared to the stagnation of or even decline in the TVEs' profitability in the past decade, high-tech spin-offs continue to enjoy the economic fruit of the hybrid property rights regime. The reason behind the difference lies in the degree of institutionalization of the shareholding relationship in the two cases. As noted earlier, the high-tech spin-offs' right to claim residuals is protected by overseas listing (Markus 2012), and these firms were incentivized to pursue their own prosperity. On the contrary, only a few of the TVEs are listed on the stock market. This means that local officials easily compromise on the goal of profit maximization in pursuit of other economic goals that would facilitate their career promotions, such as "employment, fiscal revenue, and per capita income or output growth (Kung and Lin 2007)."

IV. "No Bourgeoisie, no Democracy?": Political Implications of China's Hybrid Property Rights Regimes

What does the hybrid property rights regime in China's high-tech sector imply for our understanding of dual transitions in China? From a political economy perspective, I argue that the way privatization has been accomplished has substantial significance for political change. In the case of the Chinese high-tech industry, the way China privatized its public assets preserves a lot of room for previous power structures to stay, and the tie between parent agencies and their spin-offs has never been formally terminated. Such an arrangement discourages challenges to the existing authority structure. Given that the hybrid property rights arrangement is a nationwide phenomenon in China, the prospects for democratization are gloomy.

Differing from material possessions, property is a right in the sense that the claim on property can be enforced by the society or the state. Given that property rights are an enforceable claim, property is a political phenomenon, in which political relations among individuals are defined (Macpherson 1978). It also means that all property rights reforms inevitably redefine the power structure in a society. Moore's work on the origins of capitalist democracy accurately demonstrates this point. In his study of the English and French history of democracy, Moore identifies an economically independent middle class as the origin of the key impetus to democratic governance. As to the role of this economically independent middle class in the course of democratization, he argues that "the most important aspect was the growth of the notion of the immunity of certain groups and persons from the power of the ruler, along with the conception of the right of resistance to unjust authority (Moore 1966)." Such observations led to his emphasis on the importance of equality in political evolution. Without this equality, a communist or fascist regime rather than a democratic one would emerge (Moore 1966). The fact that equality between the ruler and the ruled was the key factor for English and French democracy implies that for democracy to occur the ruled must have an independent economic foundation and therefore a clear break with the past power structure. This is where Moore's famous formula, "no Bourgeoisie, no Democracy (Moore 1966)," comes from.

However, in the evolution of China's high-tech sector, we hardly find such interaction between the ruler and the ruled. The program of privatization, like other reform policies, is exploratory in nature. Its goal is the state agencies' self-reliance, and its means is the creation of spin-off enterprises. Consequently, different types of

hybrid property rights arrangements between state agencies and their spin-offs were established, depending on the effectiveness of the property rights regimes for the financial survival of the former. This expediency frustrated the formulation of common interests among spin-offs to resist state agencies' claims.²⁰ In addition, state agencies provided capital, human resources, technology, and even reputation to form spin-off enterprises that generated profits. Although these initial resources were a loan rather than an investment in the eyes of the spin-offs' leaders and the firms have already paid the loans back, it cannot be denied that these firms have never cut their formal or informal ties with the state agencies. Here, three points need to be further developed.

First, as already indicated, the reassignment of property rights in China's high-tech sector created purposive ambiguity and a favorable incentive structure for the firms' growth. Since every party involved has a stake in the enterprises' performance in the marketplace, this ambiguity was elaborated for the purpose of transferring the resources of state agencies without encountering strong resistance from within. In this sense, "bargained property rights" in the Chinese high-tech sector functioned as an adhesive rather than a point of contention between state agencies and spin-offs (Francis 1999). This adhesive harmonized disagreements between the two parties over firms' operations and made business leaders less critical of the existing governance structure. This tendency was even strengthened when considering the next point.

Second, some employees in these spin-offs still held positions in parent state agencies in order to preserve their privileges as state

²⁰ This claim is similar to Kellee Tsai's observation of the lack of a class identity among the Chinese middle class. See Tsai (2005).

employees (Francis 1996). The joint positions guaranteed these employees' means of living when the prospects of the spin-offs were uncertain. The flexibility in personnel management, however, frustrated the redistribution of the power structure. The formal personal links together with informal personal connections (*guanxi*) associated with positions as state employees gave parent agencies the upper hand regarding the career prospects of these employees. When almost every spin-off has joint-position employees, it also means that the Chinese government gained leverage in regulating high-tech businesses. The development, in Moore's words, lacks "a revolutionary break with the past (Francis 1996)."

Even in spin-offs that are publicly traded in stock markets such as Founder, Lenovo, and Tongfang, the Party-state retains its influence through party committees within these firms. Article 19 of China's Corporate Law indicates that the CCP may create the party organizations within the enterprises according to the CCP Charter and promote party activities. At the same time, the enterprises should provide the necessities to facilitate party activities.²¹ While the high-level managers of these firms are all party members, the party committees perform the function of ensuring ideological loyalty and maintain loose control over corporate governance. Another important task of party committees is to ensure that firms' operations do not deviate from industrial policies. In short, spin-offs have never severed the ties with the Party-state. Lastly, not only have parent state agencies had a say in the operations of their spin-offs, but local authorities have also played a big role in assisting in the evolution of these firms (Segal 2002). Most importantly,

²¹ Please see http://www.gov.cn/flfg/2005-10/28/content_85478.htm (March 27, 2013).

when the legal status of high-tech spin-offs was still vague, local governments played an active role in fundraising in response to suspicion from state banks. As a result, there is much leeway for local governments to intervene in firms' internal management. These three points indicate that high-tech spin-off enterprises have never formally cut their ties with the state in China. Although some would argue that the direction of influence can be both ways, it is evident that the Party-state had more leverage than spin-off enterprises did, especially in the early stages of the reform. In sum, the process of reassigning property rights in China's high-tech sector retains room for the past power structure, and entrepreneurs in spin-offs have never been fully independent.

My observation of the high-tech sector can, to some degree, be generalized to a broader picture in understanding dual transitions in contemporary China. To be precise, the political logic of reassigning property rights that I found here is generalizable. Given that the creation of spin-offs is a nationwide phenomenon in the urban economy, the politics of spin-offs in technology industries can also be found in other sectors in the Chinese economy. As long as the old power structure never faces a real challenge from below, the conditions for any meaningful political change can barely be met. This explains why dual transitions do not occur in China.

V. Conclusion

In this article, I use the high-tech sector as a lens to explore the implications of reform for dual transitions in the Chinese context. From the perspective of property rights, my finding suggests that what makes China successful in neoliberal reform is also the cause of China's lasting authoritarian governance. The reassignment of property rights and the ownership arrangement between parent

state agencies and their spin-off enterprises have failed to foster an independent class of entrepreneurs who are capable of bringing change in the political sphere. While the existing literature has already noted the dependency of China's entrepreneurs on the Chinese state, this article finds a different source for entrepreneurial dependency. Rather than being a product of the CCP's strategy to incorporate entrepreneurs into the political system (Dickson 2008), entrepreneurial dependency comes from the entrepreneurs' continuous ties with the state. In other words, while spin-offs have been a nationwide trend in the course of economic reform, a great number of entrepreneurs have never been truly separate from the CCP governance structure. Together with existing studies, this article presents a nuanced analysis of the emergence of Chinese capitalists and their relationships with the Party-state.

The findings of this article underscore broader implications for the study of development. Neoclassical thinkers contend that free markets and noninterventionism are the only route to development, which is the main theme in the "Washington Consensus (Leys 1996)." Yet the case of China poses a critical challenge. Actually, in addition to the Chinese experience, the recognition of the problems associated with the neoliberal strategy for development has come a long way (Leys 1996). Here, it is helpful to succinctly discuss this recognition from both theoretical and empirical perspectives.

Theoretically, the economist Keynes points out that the instability inherent in the capitalist market leads to the failure of market mechanisms. The implications of this argument for political economy, as Caporaso and Levine argue, are twofold. On the one hand, Keynesianism limits pure property rights with state regulation on some important voluntary contractual relations such as the wage contract in the market. On the other hand, since market failure risks

the potential of economic production, the state should play a central role in development (Caporaso and Levine 1992). Empirically, based on his study of economic history, Polanyi argues that there never was a self-regulating market in human history. Even in advanced countries, governments have played an ongoing role in promoting economic development and protecting those who suffer from this process. Therefore, the postulation of a truly free market is only a myth (Polanyi 1944). More recently, by critically reviewing the rise and fall of development theories, Leys concludes that competing formulations for development reflect different politically motivated policy decisions, which is less helpful in real world development. The ideological fervor over market forces, held by U.S.-dominated international institutions such as the International Monetary Fund and the World Bank, results in many counterproductive strategies for development in the Third World (Leys 1996).

All the evidence, including the success of the Chinese experience in achieving economic modernization as proposed above, makes us rethink the applicability of neoclassical development policy in the course of transitioning to a market economy. Yet in the meantime, as I have shown throughout this article, the choice of development strategy has its political consequences. Policy decisions concerning economic institutions that were made in the early stages of reform have a lasting impact on the distribution of power among related parties. When judged from this angle, the Chinese experience hardly teaches us a positive lesson.

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中國大陸的雙重轉型： 財產權與中關村的案例

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摘要

在雙重轉型的研究中，中國大陸政權的韌性一直是個謎。藉由檢驗中國大陸高科技部門中的產權制度，本文認為中國大陸在沒有政治自由化的情況下卻能達成非凡的經濟增長，應歸結於產權的再分配過程。高科技分拆企業的創建及相應而生的混合產權制度給予面臨財政困難的國家機構一線生機，然而此一安排卻也讓舊有政治權力結構得以保存。更重要的是這些分拆企業從未剪斷與國家相連的紐帶。該策略雖已被證明能在市場轉型的過程中有效地防範國家的掠奪行為，但同時卻也保障了國家對企業的持續控制。

關鍵字：政治經濟學、產權、雙重轉型、中關村、中國