
CAPITALISM WITHOUT DEMOCRACY

Capitalism without Democracy

THE PRIVATE SECTOR IN
CONTEMPORARY CHINA

Kellee S. Tsai

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For Felix and Kirby

Each new generation of scientists or social researchers furthers its predecessors' understanding of the world of reality. If one day we look back at our present findings . . . and find that this understanding was superficial and naïve, this will only be evidence of progress in our understanding.

Fei Xiaotong, "Small Towns, Great Significance:
A Study of Small Towns in Wujiang County" (1984)

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Preface

When I first visited China in 1992, I remember marveling that for an authoritarian country dominated by a Communist party, people seemed to get away with a lot at the ground level. To be sure, there were—and still are—serious restrictions on freedom of speech and assembly when it comes to practices that could threaten the party-state’s legitimacy. But ordinary people were finding ways around midlevel rules and regulations that were anachronistic or impractical. A few years later when I was conducting research on informal finance, the evasive capacity of China’s private entrepreneurs impressed me further. Despite numerous obstacles, China’s business owners raise capital through innovative and often illegal means, and in the process the private sector has boomed.

Is this transformative potential of private entrepreneurs limited to economic issues? What are the political implications of private sector development in China? This book’s title, *Capitalism without Democracy*, summarizes the broad contours of the conclusion. To date, the spread of markets has not brought democracy to China, and my research shows that private entrepreneurs are not likely to demand regime change. A venture capitalist in Beijing predicted, “Things would quickly become chaotic if China became a democracy. What I worry about the most is maintaining social stability so the economy will continue to do well.” But that is only part of the story. Regardless of whether China ultimately makes a transition to democracy, dramatic changes in the country’s paramount political institutions have already occurred. Moreover, those changes have favored private entrepreneurs—the Chinese Communist Party now welcomes capitalist members, and at least on paper the Constitution of the People’s Republic of China protects

private property rights. How did these institutional changes occur in the absence of regime transition or political mobilization by private entrepreneurs?

My explanation is similar in logic to what I found in the veiled, yet expansive, world of informal finance: in discrete collaboration with local officials, private entrepreneurs have devised a host of what I call “adaptive informal institutions,” which are routinized adaptations to the constraints and opportunities of various formal institutions. In turn, these adaptive informal institutions have undermined and contributed to the transformation of the formal institutions that once endeavored to constrain the activities of business owners. Private entrepreneurs have indeed had an impact on Chinese politics, but this influence has occurred through indirect means. That this is possible in an authoritarian party-state helps us understand endogenous institutional change. As a middle-aged hotel owner put it, “I have already experienced two revolutions in my lifetime—the Cultural Revolution and a market revolution—and somehow, the Chinese Communist Party has managed to survive both.”

Because this book explores both the origins and the consequences of adaptive informal institutions, it is fitting that many of the contributions to this project occurred through informal means—impulsive late night e-mails, pontifications during happy hour, cab driver chats, interminable banquets, dank massage parlors, delays at public transportation hubs, and, yes, even interactions by the water fountain outside my office in Mergenthaler Hall. Recounting those encounters would make a colorful narrative about the anthropology of fieldwork and life in the ivory tower.

Less colorful, but more central to resolving the practical challenges facing academics in social science, is another book-length tribute that I could write about the kindness of friends, colleagues, institutions, interviewees, and students who took the time to support various dimensions of this project over the years.

First, this book would not have been possible without the multiple sources of institutional support that I received. A two-year grant from the International Research Fellowship Program of the National Science Foundation (NSF INT-0107326), administered by Program Manager Susan Parris, enabled me to design and implement a national survey based on multistage area probability sampling, as well as to conduct field interviews with hundreds of entrepreneurs and officials in various parts of China. Any opinions, findings, and conclusions or recommendations expressed in this book are those of the author and do not necessarily reflect the views of the NSF.

The Private Economy Research Center and the Institute of Sociology of the Chinese Academy of Social Sciences proved to be professional hosts. In this regard, I thank Zhang Houyi and Chen Guangjin for their diligence

and patience as research collaborators; I also thank Dai Jianzhong, Huang Ping, and Wang Xiaoyi for their friendship and assistance along the way.

My institutional home, the Department of Political Science at Johns Hopkins University, generously allowed me to spread the NSF grant over five years, which meant that I was able to conduct the fieldwork, analyze the data, have two babies, and write this book, while students and colleagues dealt with my staggered absences from campus.

Sage Publications permitted me to use some of the material that originally appeared in my article, “Capitalists without a Class: Political Diversity among Private Entrepreneurs in China,” *Comparative Political Studies* 39 (November 2005): 1130–1158.

I am also grateful for access to data from the East Asia Barometer Project (2000–2004), which was co-directed by Professors Fu Hu and Yun-han Chu and received major funding support from Taiwan’s Ministry of Education, Academia Sinica, and National Taiwan University.

For superb research assistance, I thank Mary Akchurin, Shirley Chen, Daniel Slater, and Jack Yeung. Li Jianjun, Wang Juan, and Zeng Jin helped to clarify many queries in a timely manner. Graduate students in my seminar on comparative democratization—Renny Babiarz, Michael Becher, Kersten Hoenig, Michael McCarthy, Mariam Mufti, and Jeff Pugh—also deserve credit for critically reading key portions of the manuscript, and Mariam Mufti assisted diligently with indexing.

In the course of shaping and completing this book, I have benefited greatly from sound advice, thoughtful comments, tough questions, and fruitful exchanges with Howard Aldrich, Joel Andreas, Giovanni Arrighi, Richard Baum, Eva Bellin, Thomas Berger, Thomas Bernstein, Kathy Chen, Chen Yongjun, Erin Chung, William Connolly, Sarah Cook, Richard Doner, Mary Gallagher, Merle Goldman, Stephan Haggard, Lingxin Hao, Jonathan Hartlyn, He Daming, Yasheng Huang, Richard Katz, Margaret Keck, Scott Kennedy, Melvin Kohn, Cheng Li, Davin Mackenzie, Gerald McDermott, Tobie Meyer-Fong, Ethan Michelson, Kin Moy, Andrew Nathan, Jean Oi, William Parish, Albert Park, Margaret Pearson, Minxin Pei, Elizabeth Perry, Benjamin Read, Elizabeth Remick, William Rowe, Ben Ross Schneider, Adam Sheingate, Tianjian Shi, Matthew Shum, Beverly Silver, Aseema Sinha, Daniel Slater, Sidney Tarrow, Lily Tsai, Andrew Walder, Andrew Watson, Martin Whyte, Ezra Vogel, Dali Yang, Madeleine Zelin, and Elke Zuern.

I also enjoyed input from audiences at annual meetings of the American Political Science Association and the Association for Asian Studies, as well as seminars or conferences held at the following institutions (in several cases, more than once): Columbia University, Cornell University, Georgetown University, Harvard University, Indiana University–Bloomington, the International Food Policy Research Institute, Jiang Han University, Johns Hopkins University, Luce Foundation, Stanford University, University of Chicago, University of Havana,

University of North Carolina–Chapel Hill, University of Michigan–Ann Arbor, and University of Pennsylvania.

I owe an intellectual debt and special thanks to the three readers who offered constructive feedback on the entire manuscript—Bruce Dickson, Kevin O’Brien, and Dorothy Solinger; indeed, their scholarship influenced my own thinking on the topic before I even started this project. Mark Blyth and Davis Bookhart read multiple versions of certain sections with characteristic care and without complaint. At Cornell University Press, Candace Akins expertly guided the book through production, and Roger Haydon deserves a medal for his editorial magic, ongoing attention, and friendship.

None of the people mentioned above bears any responsibility for remaining errors, unsubstantiated claims, or other embarrassing shortcomings in the final product.

Above all, I acknowledge the unreciprocated generosity of all the entrepreneurs and other interviewees, who should remain anonymous and who are identified by pseudonyms in the text. I wouldn’t have much to write about without them. At the same time, most of the interviews are not even mentioned in this book—like a photographer who shoots countless rolls of film to capture a particular image, I have presented only a sliver of the material gathered from very busy people in the course of my conducting a national survey and extensive fieldwork.

Finally, I am fortunate to have a family that offers absolute confidence and support in me and my research. My parents, especially my mother Katherine, my sister, Linda, my in-laws Betty and Sam, and my husband, Davis, have all helped out in a multitude of thankless but very much needed ways—*thank you*. The contribution of my two young sons was more oblique: their impending births, at the beginning and the end of the writing process, respectively, helped to keep things on schedule. I dedicate this book to them with love. Without them, I might still be rewriting the introduction or wandering around dusty markets in China, transcribing the details of other people’s lives rather than living my own.

KELLEE S. TSAI

Baltimore, Maryland

Abbreviations

ABS	Asian Barometer Survey
ACFIC	All-China Federation of Industry and Commerce
CASS	Chinese Academy of Social Sciences
CBA	China Brilliance Automotive Holdings Limited
CCP	Chinese Communist Party
CEO	Chief executive officer
CPPCC	Chinese People's Political Consultative Committee
FDI	Foreign direct investment
FIC	Federation of Industry and Commerce
FIE	Foreign-invested enterprise
GDP	Gross domestic product
HITIC	Hunan International Trust and Investment Corporation
ICMB	Industrial and Commercial Management Bureau
ILA	Individual Laborers Association
IPO	Initial public offering
LLC	Limited-liability company
NGO	Nongovernmental organization
NPC	National People's Congress
PEA	Private Entrepreneurs Association
PLA	People's Liberation Army
PPS	Probability proportionate to size
PRC	People's Republic of China
PSU	Primary sampling unit
RCC	Rural credit cooperative
SAIC	State Administration for Industry and Commerce

SEZ	Special Economic Zone
SHC	Shareholding cooperative
SHE	Shareholding enterprise
SME	Small and medium enterprise
SOE	State-owned enterprise
SSU	Secondary sampling unit
TVE	Township and village enterprise
UCB	Urban commercial bank
UCC	Urban credit cooperative
UFIC	United Front for Industry and Commerce

Note on Conversion of Key Measures and Romanization

The conversion of key measures is as follows:

1 *mu* of land=0.0667 hectare or 1/6 acre

1 *jin*=0.5 kilograms or 1.123 pounds

1 *wan*=ten thousand

1 *yi*=100 million

\$1.00=8.28 renminbi (RMB) or yuan during the 1998 to 2004 period

Selected historical exchange rates are as follows:

1975	1.86	1987	3.72
1976	1.94	1988	3.77
1977	1.86	1990	4.78
1978	1.68	1991	5.32
1979	1.56	1992	5.52
1980	1.50	1993	5.76
1981	1.71	1994	8.62
1982	1.89	1995	8.35
1983	1.98	1996	8.31
1984	2.33	1997	8.29
1985	2.94	2005	8.19
1986	3.45		

Sources: Rates for 1975 to 1980 are from *China Financial Statistics 1952–1991*; rates for 1981 to 1984 are from the *China Financial Yearbook 1986*; and rates for 1985 to 2005 come from the *China Statistical Yearbook 2006*.

Note on Romanization

The pinyin system of romanization is used throughout the text, except in cases where the Wade-Giles term is more familiar.

CAPITALISM WITHOUT DEMOCRACY



Map of China

1

The Myth of China's Democratic Capitalists

The biggest problems in China are corruption and absence of the rule of law. But democracy wouldn't solve these problems because the Chinese masses are too ignorant to participate in politics.

Private entrepreneur in Shanghai, 2005

The Myth

In the summer of 1989, when college students were squatting in Tiananmen Square, demanding democracy, Beijing's street vendors donated food and water to the students. Private copy shops operated their fax machines around the clock to spread the word. A brigade of private entrepreneurs on motorcycles dubbed the "Flying Tigers" spontaneously formed to deliver messages and patrol the perimeters of Beijing for signs of troop movement toward the square (Li et al. 1989, 189–193).¹ The privately owned Stone Corporation provided computer equipment and cash donations to the students. To domestic and international audiences, these accounts were quite moving. The idea that China's new capitalists were altruistic and supportive of the spontaneous student-led democracy movement, the idea that China's bourgeoisie were also becoming democrats like their historical counterparts in Europe and North America, was encouraging.²

Even a decade after the Tiananmen crisis, Jonathan Adelman boldly asserted, "It is hard for the great majority of Americans who have not visited China or followed it closely to realize that China is in the middle of a historic transition to capitalism and ultimately democracy" (Adelman 2001, 41A).³

1. Cited in Gong and Walder 1993, 11, n. 36.

2. On other myths associated with 1989, see Esherick and Wasserstrom 1994.

3. Those who expect democratization in China usually mean a liberal democracy, including competitive and fair elections, and protection of civil and political liberties by rule of law.

The global business community soon added its euphoric prognostications that encouraging private sector development would ensure a democratic transition in China. The American Society for Competitiveness instructed its corporate readers that “global entrepreneurs must continue to invest in corporate infrastructure to help insure stability, success and the inevitable attainment of full democracy there” (*Global Competitiveness*, January 2002, S183). A number of political scientists have gone as far as pronouncing that democratization is inevitable in China and will be brought about by its growing economy. Larry Diamond (1999) asserted that “sooner or later, economic development will generate growing pressures (and possibilities) for China to make a definitive regime change to democracy.”⁴ Hu Shaohua elaborates on this general logic in *Explaining Chinese Democratization* (2000):

China is one of the fastest-growing economies in the world, and its economy probably will continue to expand in the foreseeable future. The growing economy will bring higher living standards, a higher level of education, and a more complicated socioeconomic structure in its wake. Under these circumstances, more people will demand more freedom and democracy. (155)⁵

Other scholars have devoted their energies to identifying the economic benchmarks for regime transition. Stanford economist Henry Rowen predicted that if China maintained a 5 percent per capita growth in gross domestic product, then by 2015 it will reach a critical threshold of \$7,000–8,000 per capita GDP and become democratic (Rowen 1996, 61, 68–69).⁶ Xia Li Lollar (1997) not only finds evidence for “a positive correlation between a market economy and democracy” (4) but contends that

See Zhao 2000 and the special issue, “Will China Democratize?” *Journal of Democracy* 9, 1 (January 1998). Examples abound around the world, however, of so-called illiberal democracies, electoral/procedural democracies, and hybrid regimes that lie somewhere between the ideal types of authoritarianism and liberal democracy. See Collier and Levitsky 1997, Diamond 2002, and Zakaria 1997.

4. In a 2004 talk at Hong Kong’s Asia Society, Diamond further honed this prediction: “I’m 53 years old and I will make you a bet that before I die, China will be a democracy.” “Analysis: Is China Inching toward Democracy?” United Press International, September 18, 2004.

5. In addition to applying the logic of modernization theory, Hu (2000) also offers a functionalist explanation: “Sooner or later, China will adopt a democratic system, because democracy is the most feasible system in modern society” (156). Other China scholars have advanced variations on this general prediction. For example, over a decade ago, Ronald Glassman (1991) announced, “[China’s] new middle classes have become the ardent ‘carrying class’ of modern democracy” (8). Gordon White (1994) similarly referred to the economic foundations for a “new form of ‘civil society,’” which “provides the basis for political democratization in China” (81). And Bruce Gilley (2004) speaks of “the inevitability of such a transition” (251).

6. A critique is Zweig 1999. Also, note that Thomas Rawski (2000) disputes the assumption of ongoing growth.

China has already commenced a dual-step transition to democracy such that "China has gone through its first stage of transition from totalitarianism to authoritarianism and is on the verge of starting the longer-term, second transition toward democracy" (83–84). Using a resource distribution index, Tatu Vanhanen (2003) finds that China has already reached the "transition level" for democracy.

Such predictions are inspired in part by the stunning expansion of China's private sector since the late 1970s. In 1977, China did not even keep official statistics on private enterprises because they were illegal and negligible in number. By 2005, there were 29.3 million private businesses, employing over 200 million people and accounting for 49.7 percent of the GDP (*China Daily*, December 14, 2005).⁷ Yet private property rights are not protected consistently by rule of law, private entrepreneurs lack access to most conventional sources of credit, and business owners are denied the opportunity to vote for political leaders who will defend their material interests. Hence, based on the evolution of democracy in a handful of Western countries, many observers expect that China's growing population of capitalists will naturally agitate for democracy in the spirit of "no taxation without representation." They will strategically leverage their economic resources to acquire political ones. As Zheng Yongnian puts it, "Chinese business classes are likely to play a role that their European counterparts did in the past. Capitalism is generating a Chinese bourgeoisie. It is a class with teeth" (Zheng 2004, 311).

The Reality behind the Myth

The 1989 images of private business owners helping democracy activists are outdated and misleading.⁸ Today most private entrepreneurs are not donating resources toward building a democratic People's Republic of China (PRC) in their spare time. Instead, most are working eighteen-hour days and struggling to stay in business. Others are saving their profits to educate their one child, pay for medicine, buy a house, or retire. Some are planning to leave the country. Quite a few entertain local officials as necessary business expenses, and many are members of the Chinese Communist Party (CCP). Remarkably, most entrepreneurs think that the system generally works for them. One told me in 1996, "Even though I spend about 70 percent of my

7. A 2006 report issued by the Chinese Academy of Social Sciences estimated that in five years the nonstate sector would account for three quarters of China's GDP and that 70 percent of the country's firms would be privately owned (*China Daily*, September 22, 2006).

8. Moreover, most business owners were not supportive of the 1989 student demonstrations because they disrupted the business environment. See Guo 2003, 152–154; He 1996, 184; Wank 1995, 67–69.

profits on fees and bribes, running this restaurant still gives me a better life than what I had as a state factory worker.”⁹ This entrepreneur’s loyalty to the regime was especially apparent when he voluntarily expressed strong approval for the way that the central government dealt with student protestors in 1989. He believed that the crackdown “maintained the social stability necessary for continued economic growth.”

Rather than assuming that Chinese entrepreneurs are going to demand democratic reforms, I suggest that it is more instructive to assess whether members of the current generation of capitalists share a common identity and definition of interests—which would be necessary for constituting a politically assertive class or even part of a class (Thompson 1966; cf. Katznelson 1986). China’s business owners are diverse. Most do not fall into the income and lifestyle strata that we regard as constituting the “middle class.”¹⁰ Because of their diversity, entrepreneurs deal with the government in different ways and have different political views—if they have any. And to the extent that China’s capitalists are politically assertive, they are not inclusive in their demands. Existing studies and my own research demonstrate that class formation, to the extent that it results in a common identity, has not occurred among private entrepreneurs and is unlikely to in the near future.¹¹ This is not to say that private sector development is politically irrelevant or that China will never develop some form of democracy but, rather, that the sequence of events leading to capitalist demands for democracy in a handful of other countries is distinctive and unlikely to be replicated. China’s private entrepreneurs should be analyzed on their own terms to understand how and to what extent they are politically consequential. Based on hundreds of in-depth interviews and an original national survey of business owners, in this book I demonstrate that China’s capitalists are pragmatic and creative but they are not budding democrats.

9. Field notes, Kaifeng, Henan Province, July 23, 1996.

10. The very definition of the middle class varies according to different economic, political, social, and cultural contexts, and even within a particular country, one cannot assume that members of a middle income group or an emerging strata of “new rich” will share similar political views or engage in similar types of activities. For example, Hagen Koo (1991) has observed that South Korea’s middle classes may be divided into four distinct categories—of which the petty bourgeoisie are only one; furthermore, during the country’s democratic transition, each subgroup had different preferences about the type of democracy that should be implemented. The other three categories identified include managerial and professional workers, lower-grade white-collar workers, and intellectuals, respectively. Cf. Goodman and Robison 1996; Howe 1992; Walkowitz 1999. Moreover, various Marxist-influenced scholars generally agree that by virtue of its structural position, middle-class politics is variable, inconsistent, and, ultimately, indeterminate (Koo 1991, 492–493); Abercrombie and Urry 1983; Mills 1951; Poulantzas 1975; Wright 1985.

11. China scholars who have focused on particular subsets of private entrepreneurs have reached similar conclusions about the absence of class-based yearnings for democracy. See Dickson 2003; Hong 2004; and Pearson 2002.

Why, then, do general observers continue to have high democratic expectations of China's toiling entrepreneurs? Whether voluntarist or structuralist in orientation, few scholars propound a simple linear model of political development based on an overgeneralization of Barrington Moore's famous quotation "no bourgeois, no democracy" (Moore 1966, 418).¹² Yet a number of vocal observers remain influenced by a handful of classic works in political science that can be summarized by Joseph Schumpeter's declaration that "modern democracy is a product of the capitalist process" (Schumpeter 1976 [1942], 296–297).¹³ Post-cold war notions of convergence toward capitalist democracy as a global norm have also revived the logic of modernization theory, which associates economic prosperity with political liberalization (Fukuyama 1992; Lipset 1959; Pye 1990). As Bruce Gilley asserts in *China's Democratic Future* (2004), "The laws of social science grind away in China as they do elsewhere, whether people like it or not" (xiii). But in reality, the path to democratization is not nearly so simple.¹⁴ The belief that capitalists must demand democracy is a myth, not a law of social science. Historically, the processes that lead to democratization are highly contingent and involve a multiplicity of actors and institutions. China is no different in this regard, so debunking this popular myth is not difficult. In this book I do not predict whether China will someday become a liberal democracy. I do, however, assert with a high level of certainty that should democratization occur in China, it will not be led by a disgruntled horde of private entrepreneurs.

Private entrepreneurs may not be clamoring for democracy, but they are influencing Chinese politics. In the course of their day-to-day interactions—with one another and with local officials—entrepreneurs are changing the country's formal political institutions in ways that reflect their needs and interests. Although liberal democracies permit many direct forms of political expression, what China's entrepreneurs are doing is more subtle and possibly more effective in conveying their policy concerns than voting, lobbying, and protesting. In this book I thus engage the more complex issues of what it really means to be a private entrepreneur in China, how entrepreneurs actually perceive themselves, and, most fundamentally, how they get things done. We will see that business owners must navigate a myriad of political

12. Indeed, Moore's oft-cited "no bourgeois, no democracy" was not intended to apply to countries other than those he analyzed.

13. Charles Lindblom elaborated on "this great historic fact": "The association between liberal constitutional polyarchy and market is clearly no historical accident. Polyarchies were established to win and protect certain liberties: private property, free enterprise, free contract, and occupational choice" (Lindblom 1977, 162, 164).

14. Political scientists writing about the "third wave" of democratization in the late 1970s and early 1980s identified multiple paths for authoritarian breakdown and democratic consolidation. See Collier 1999; Diamond 1999; Diamond and Plattner, eds. 1996; Huntington 1991; O'Donnell, Schmitter, and Whitehead 1986; Rueschemeyer, Stephens, and Stephens 1992.

and regulatory restrictions—and in doing so, how they have fundamentally altered the formal political landscape. We will also see that the private sector's political influence has unfolded in an indirect and incremental manner. In examining these issues, I explain why China's private entrepreneurs are not out on the streets demanding democracy and why significant institutional transformations have occurred in China's political economy in the absence of regime change. The answers to these apparent paradoxes are grounded in the daily practices of business owners and their official regulators. Local economic and state actors have evaded, exploited, and appropriated formal institutions through a variety of informal adaptive strategies. Ultimately, the adaptive informal institutions of private entrepreneurs have had a structural impact on the formal institutions governing China's political economy.

The Broader Implications of China's Experience

These claims have broader implications for theoretical debates concerning political and institutional development as well as implications for the study of democracy. China does not fit preexisting models of political economy, and indeed it defies the expectations of many familiar explanations in the study of comparative politics. Analyzing the process of private sector development in reform-era China does, however, yield insights into the dynamics of endogenous institutional change. Despite ongoing regime durability, a number of the country's political, economic, and even social institutions have undergone momentous transformations since the late 1970s. Rather than confirming prevailing theories of political development, the causal mechanism underlying many of these transformations lies in the informal interactions among local state and nonstate actors. Conventional explanations of democratic development and regime change generally overlook the causal potential of informal practices and institutions to change or sustain formal institutions.¹⁵ Meanwhile, studies of transitions from socialism have been more attentive to the relevance of informal institutions and socialist-era legacies, but they have focused more on how deep-rooted informal institutions undermine formal ones rather than how they may contribute to the resilience of formal institutions.

The best-known comparative historical theories of democratic development predict capitalist class formation and democratic mobilization on the basis of structural transformations in the economy and society.¹⁶ Instead of

15. Key exceptions include Helmke and Levitsky, eds. 2006; Lauth 2000; and O'Donnell 1996.

16. Bellin 2002; Koo 2001; Moore 1966; Rueschemeyer, Stephens, and Stephens 1992.

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