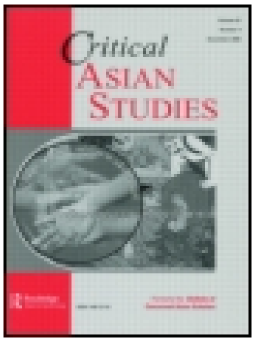

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The state and domestic capitalists in China's economic transition: from great compromise to strained alliance

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ABSTRACT
This article contributes to the debate on the role of the Chinese state in economic transition by shedding light on the relationship between the state and a Chinese domestic capitalist class. The formation of this new class has been a two-way movement between the state and new elites' forces. This two-way movement remains a prominent feature of the relationship between the state and the new class. This relationship has evolved with the dynamics of capital-labor conflicts and contradictions within a regime of accumulation and transitioned from a stage of "great compromise" to a stage of "strained alliance."

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Chinese state; capitalist class; two-way movement; accumulation regime; developmental state

Introduction

Over the past four decades, China has undergone a transition from a planned economy to a market economy. This transition has given rise to not only a great transformation of the working class but also the formation of a domestic capitalist class, one which is particularly entwined with state structures.[1] What role has the state played in the formation of this new class? What has been the impact of this new class on the state? How has this state-bourgeoisie relationship evolved within the dynamics of class conflicts, contradictions, and regimes of accumulation?

At the beginning of this transition, the state firmly controlled the economy via the central planning system. While private firms play a crucial role in the present-day economy, a state presence remains via state-owned enterprises, a financial system dominated by a few giant state-owned banks, and a land ownership system largely controlled by local municipal governments. In fact, fiscal revenue as a share of GDP has significantly increased since the mid-1990s.[2] Therefore, China appears a puzzle, since it has witnessed both the rise of new capitalists and a continued significant economic role for the state.

The existing literature emphasizes the specificity of the Chinese political economy in terms of the relation between the state and emerging domestic capitalists. These scholars explicitly or implicitly depict the Chinese state as a developmental state. They posit that

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[1]In this paper, the state refers to the whole political structure consisting of both the central government and local governments.

[2]Naughton 2017; Piketty, Yang, and Zucman 2017.

the state has adequate capacity to maintain control over domestic capitalists.[3] The guiding assumption is that, in pursing their economic interests, new capitalists seek to participate in the state and to establish interpersonal relationships with government officials, rather than seek an alternative political regime. It is noteworthy that these studies mirror the Communist Party of China's (CPC) official ideology of "Socialism with Chinese Characteristics" in that they all contend that capitalists function as controllable instruments for achieving the party-state's fundamental goal, be this economic development or a particular version of socialism.

For critical approaches such as Marxian political economy, the dynamics of capital accumulation are vitally entangled with political power. On the one hand, the state provides the regulatory, legal, and repressive framework for private ownership, contracts, and competition to occur; it also tries to contain crises, reduce uncertainty on the return of capital, and guide the accumulation of capital in varied forms.[4] On the other hand, the state depends on the accumulation of capital for its functioning, both through the collection of taxes and the more abstract relationship between the accumulation of wealth and increased state capacity. Generally speaking, capital-labor conflicts, capitalist competition (both domestic and international), and the contradictions generated by accumulation not only shape the state, but also are shaped by the state.[5]

In this article, we examine the changing patterns of the relationship between the Chinese state and China's domestic capitalist class by using a Marxian political economy methodology. In doing so, we provide an account of the dialectical relationship between the Chinese state and this emerging class. Our argument has two parts. First, we argue that the formation of a domestic capitalist class is a two-way movement in which the state interacts, conflicts, and compromises with new economic elites and prototype capitalists. This two-way movement remains a prominent feature of the relationship between the state and the new class in present-day China. Second, the state-class relationship in China has been continuously affected by capital-labor conflicts and contradictions within the regimes of accumulation. As a result, the state-class relationship has undergone a transition from what we call a "great compromise" to a "strained alliance."

This article contributes to the existing literature in two ways. First, we investigate the two-way movement between the Chinese state and the country's domestic capitalist class in both the formation and transformation of this new class, arguing the state has shaped and been shaped by this new class. In so doing, we challenge the conventional wisdom that the Chinese state is a developmental state, strictly controlling the new capitalist class. Second, we identify the historical trajectory of the changing patterns of the relationship between the state and the new class, placing this in the context of capital-labor conflicts and contradictions within changing regimes of accumulation. In addition, we analyze the relations between each faction of the new class and the state, since different factions in different contexts share some interests or have potential conflicts with the state. We identify three factions of the new class, according to the characteristics of their regimes of accumulation: a low-road faction of capitalists, whose accumulation mainly depends on cheap labor and cheap land,[6] an innovation faction, whose accumulation mainly depends

[3]So 2003; Dickson 2008; McNally and Wright 2010; van der Pijl 2012, 2016; Yao 2010, 2011.
[4]Brunhoff 1978.
[5]Jessop 2008; Cox 1981.
[6]Including low environment costs.

on high labor productivity and technological innovation, and a finance faction, whose accumulation mainly depends on financial speculation.[7]

The article is outlined as follows. In the next section, we review the existing literature and present our approach. Following this, we offer an overview of the historical stages and factions of China's new capitalist class. This is followed by a discussion of the relationship between the state and the capitalist class in the process of primitive accumulation. This is the stage of what we call "great compromise." The fifth section discusses the interactions between the state and the capitalist class by focusing on the background of the state's indigenous innovation policies and responses to an accelerated process of financial expansion. This is the stage of what we call "strained alliance." We conclude with a discussion of future implications of this two-way movement.

Literature review

A significant part of the existing literature suggests that the Chinese state maintains strict control over its new class of domestic capitalists. Both for Bruce Dickson, who calls this class "red capitalists,"[8] and Alvin So, who describes the emergence of a "cadre-capitalist class,"[9] the Chinese state has created capitalists from its own ranks or co-opted emerging capitalists. Both authors discuss the disproportionate participation of entrepreneurs in the political structures of local and central government, as well as the enrichment of the families of traditional political elites at all levels. In the same vein, Kees van der Pijl has argued that the state has anticipated in and guided class formation, leading to a "contained capitalist class" disinterested in a broader process of political and economic liberalization.[10] Christopher McNally and Teresa Wright argue that the CPC has been successful in co-opting emerging capitalists with the benefits of privatization and subjective bonds of reciprocity, making the Chinese bourgeoisie deeply dependent on the party-state apparatus for links that range from personal material interests to affective ties.[11] Yao Yang argues that the Chinese government has been neutral since the beginning of the reform era in the sense that it does not endorse any particular interest group and has been able to repress the interests of any such group for its own purpose; this disinterested government approach sets economic growth as its main goal in order to maintain political legitimacy.[12]

To a large extent, these scholars depict China as a developmental state – an autonomous, rational actor endowed with a talented bureaucracy and a long-term and coherent view of economic development. A developmental state is more than a state pursing economic development because it also implies that the state is able to maintain its autonomy and control an emerging class of private entrepreneurs.[13] According to Elaine Hui, the Chinese state is, to varying degrees, treated by scholars as an actor that is free-standing from society, leaving state-society relations secondary, if not marginalized. Thus,

[7]Details about the factions will be discussed in Section 3.
[8]Dickson 2008.
[9]So 2003.
[10]van der Pijl 2012; van der Pijl 2016.
[11]McNally and Wright 2010.
[12]Yao 2010; Yao 2011.
[13]Evans 1989.

whenever social and economic interests emerge in these analyses, the state is perceived as standing above sectoral interests and as being able to mediate these.[14]

While there is no doubt that this literature captures important characteristics of the state-capitalist class relationship at certain stages of history, there has been a lack of analysis of the dynamics of this relationship. More importantly, these studies tend to depict the formation of a certain pattern of state-class relations as an outcome of the actions of a powerful authoritarian state. This approach downplays the impact of the new class and class struggles on the state.[15] Put differently, the literature underscores the specificity of the state but ignores the historical conditions and social relations that have given rise to this specificity. That said, some scholars have analyzed the diversity of the roles of the Chinese state and interactions between local state actors and private entrepreneurs, emphasizing the power of capitalists and their impact on local authorities.[16] However, these studies tend to neglect changing patterns over time.

We view the Chinese state as a social relation. We argue that the state is continuously affected and shaped by class relations in society. The political and the economic orders, despite their formal institutional separation, should be structurally coupled to produce a relatively unified historical bloc.[17] In a typical capitalist society, the modes of exercising state power are the result of complex social relations which are historically determined by the forms that capital assumes.[18] In contrast to the current literature, this article highlights the dialectical nature of the relationship between the Chinese state and the new capitalist class. This relationship should be understood as a historical process conditioned by class relations and contradictions within capital accumulation. The state has played an active role in the formation and transformation of the new class, whereas this formation and transformation in turn has affected and shaped the state.

To sum up, while the current literature mostly marginalizes the impact of the new class on the state, our "two-way movement" hypothesis explicitly acknowledges it. Second, while the current literature tends to emphasize a single type of relation between the state and the new class, we suggest the state-class relationship is an evolving outcome of a complex historical process involving major class relations and contradictions of accumulation.

Historical stages and capitalist factions

The reform era that began in 1978 can be divided into three stages: from 1978 until 1991, the initial stage of market reform; from 1992 to 2008, which ended with the most recent global financial crisis; and from 2009 to the present.

In order to visualize the stages, we have measured the shares of the state (the central government, local governments, and SOEs), private capital, and labor in the primary distribution of the net value added in the corporate sector (non-financial corporations and

[14] Hui 2017. This characterization of the Chinese state resembles the "epistemological entity demanded by the strategies of development" referenced in Fiori's critique of Latin American national-developmentalism, in which the state is detached from both class interests and capital accumulation. See Fiori 2003, 101.

[15] See Fine 2013 and Chang 2013 for a comprehensive evaluation and critique of missing class relations in the developmental state literature.

[16] Howell 2006; Ong 2012; Hui 2017; Heberer and Schubert 2019; Zhang 2019.

[17] Jessop 2008, 25.

[18] Jessop 2008.

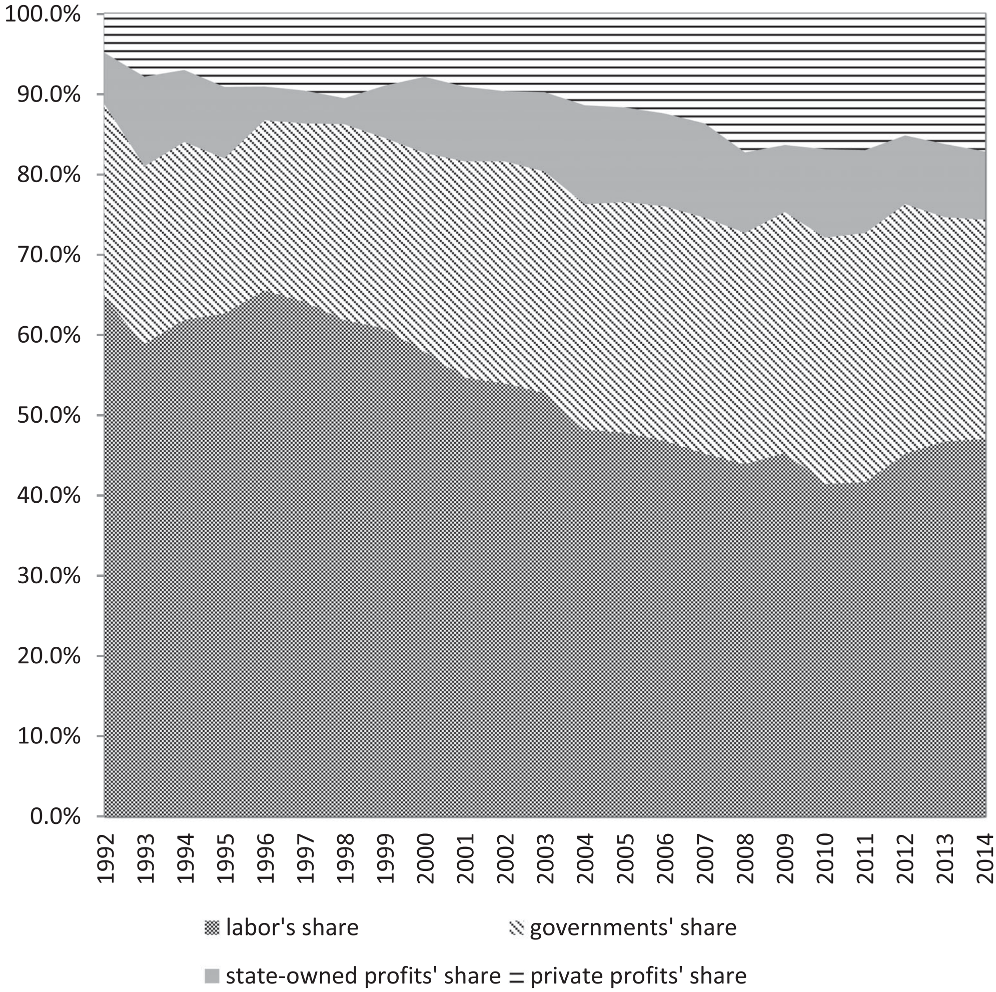

Figure 1. Distribution of net value added in the Corporate Sector, 1992–2014.

Source: The authors' calculation and estimation based on Flow of Funds Account tables in Data of Flow of Funds published by the NBS (2008) and the China Statistical Yearbook 2012–2016.

financial institutions). This net value is the sum of employee compensation, taxes on production (less subsidies), corporate taxes, the after-tax profits of state-owned enterprises, and the after-tax profits of private enterprises (see Figure 1). Due to data availability, we can only show the dynamics between 1992 and 2014. It is worth noting that each point in the data series reflects the relative power of the actor as well as minor factors such as economic fluctuations, thus it can only roughly reflect the power relations.

As this graph illustrates, labor's share significantly declined between 1992 and 2008, while private capital's share rose from 4.8 percent to 17.3 percent and the state's share – the sum of the governments' share and state-owned enterprise's share – rose from 30.6 percent to 38.9 percent over this period. The post-2009 period saw a mild recovery of labor's share and fluctuations in the shares of private capital and the state. These trends roughly correspond to the historical facts about power relations among the state, private capital, and labor throughout the three stages of the reform era.

Reforms during the first stage focused on the provision of incentives and the formation of a market economy that would coexist with the planning system.[19] During this period urban workers employed at SOEs still had access to various welfare programs and enjoyed job security. Rural-to-urban migration was rare, and peasant workers were mostly employed in township and village enterprises (TVEs), as well as foreign-funded enterprises in special economic zones (SEZs). The state and collectives owned the vast majority of productive wealth. However, this stage saw the emergence of new elites who accumulated wealth from price reforms.

During the second stage, a domestic private capitalist class emerged, along with primitive accumulation in the form of massive privatization of state-owned and collective assets and the expropriation of land. The state-capital relationship during this stage was a "great compromise:" the state allowed the rise of capitalists on the condition that it maintained a crucial role in the economy. Labor's power was substantially reduced by massive layoffs and an increase in the number of migrant workers to urban areas. Increases in the shares of private capital and the state were at the expense of workers.

The third stage roughly corresponds to what we label a "strained alliance," although the adjustment of state-capital relations started as early as the mid-2000s. By a strained alliance, we mean that internal and external contradictions imposed pressure on the relationship between private capital and the state, reducing their common interests and intensifying the conflicts between them. Since the mid-2000s, wages have grown substantially and labor unrest has noticeably increased, undermining the profits of private capital. Externally, while a large portion of domestic capitalists initially achieved prosperity through export-oriented industries, the outbreak of the global financial crisis in 2008 made some of these industries unprofitable and unsustainable. Economic growth slowed down and the economy entered the stage of a so-called "new normal," as rising wages, unstable export markets, and an economic slowdown have driven an increasing number of domestic capitalists to engage in financial speculation.

In addition to these three temporal stages, we identify three factions of domestic capitalists in China, according to their regime of accumulation: the low-road faction, the innovation faction, and the finance faction. Table 1 summarizes these factions and corresponding regimes. It is noteworthy that there is no hard boundary among factions because capital can simultaneously belong to two or more factions or move from one faction to another. What we emphasize are the different interests associated with different regimes of accumulation rather than a precise method to classify individual capitalists.

We call a particular group of domestic capitalists the "low-road faction" because their accumulation of wealth has centered on cheap labor and cheap land.[20] These capitalists comprised the majority of China's private entrepreneurs in the 1990s. A significant proportion of them concentrated in labor-intensive export-oriented industries and were deeply engaged in the global value chain. They shared common interests with the state

[19]The data for an alternative measure – the share of employee compensation in total GDP – is available for this period, which increased from 49.7 percent in 1978 to 50.1 percent in 1992, signifying that reforms during the first stage did not erode labor's interests. See Qi 2014.

[20]"Low road" is a concept initially describing the accumulation regime of an economy, which we use to characterize a capitalist faction. As David Gordon explains, "the 'low road' relies on conflict and insecurity, control and harsh worker punishments, and often features relatively stagnant or even declining real wage growth." Gordon 1996, 44.

Table 1. Fractions of domestic private capitalist class.

Classifications	When emerged	Characteristics of the accumulation regime
Low-road fraction	Early 1990s	Reliance on cheap labor and cheap land and export-oriented
Innovation fraction	Mid-2000s	Technological innovation and high labor productivity
Finance fraction	Late 2000s	Financial market speculation

in terms of creating jobs and promoting economic growth; however, the corresponding regime of accumulation intensified capital-labor conflicts due to its reliance on low wages and harsh management practices, which in turn has generated conflicts between the state and this faction.[21]

In the context of rising wages, labor unrest, and an economic slowdown after 2000, two additional factions emerged. Since the mid-2000s, the state has supported indigenous innovation in order to restructure the low-road accumulation regime and lessen the economy's dependence on cheap labor and cheap land. In contrast to the low-road faction, accumulation by the innovation faction depends on technical innovation and improved labor productivity. While it is far from dominating China's capitalist class, this faction has achieved remarkable growth due to the state's supportive policies and the expansion of domestic markets.

Another faction that emerged as a result of the economic slowdown is the finance faction. Faced with rising wages and diminished global market conditions, domestic capitalists have increasingly engaged in speculative activities, feeding bubbles in the stock market. Similar to what has occurred in the United States since the 1990s, a crucial reason for financialization is the decline in the profitability of capital accumulation.[22] The finance faction of capitalists in China not only generates instability and insecurity due to speculation in major financial markets, it also provides incentives for private entrepreneurs to withdraw capital from accumulation and jeopardize economic and employment growth. Therefore, the response by the state has been to repress this faction and impose more regulations.

The great compromise

Economic privatization formed part of a compromise between the state and new elites whose rise was a result of the reforms in the first stage of the reform era. These new elites were businessmen who accumulated private wealth by taking advantage of the then-dual price system and personal connections with officials.[23] This new class included SOE managers and state officials who accumulated considerable private wealth by taking advantage of their positions. Compared to the old political elites, these new elites were significantly more responsive to monetary incentives. While the planning system was retained, market reforms dramatically transformed the incentives that guided the behavior of people, especially those in power, which made operation of the planning system increasingly difficult.[24] Monetary incentives in turn increasingly commercialized society and

[21]Pun and Huilin 2010; Smith and Pun 2018; Howell and Pringle 2019.
[22]Kotz 2015.
[23]We note that the new elites are not from below in the sense of "capitalism from below" as examined by Byres 2009 and Yan and Chen 2015. While the elites were not from below, they had different goals than the state.
[24]SOE managers could bargain with planners for reducing the output quota so that they could increase the goods supplied to the market.

mobilized people to engage in market activities, which in turn made further marketization imperative.

The dual price system, which was established in 1984, was aimed at providing SOEs with more incentives for the production of industrial materials. This system allowed SOEs producing industrial materials to sell outside-plan goods at market prices as long as they fulfilled their in-plan quotas. The resulting gap between market prices and planning prices created not only production incentives for state companies but also rent-seeking opportunities for individuals, as enterprises were able to divert in-plan goods to the market sector. An influential study estimates that the amount of rents was thirty percent of national income in 1988.[25]

The dual price system offered an historical opportunity for new elites to accumulate private wealth by utilizing political and economic connections. Specifically, it was the officials of the Material Supply Bureau (MSB) who were responsible for the in-plan allocation of industrial materials.[26] Businessmen with connections to high-level officials were able to purchase in-plan goods at planning prices by pressuring or bribing MSB officials. They were also able to purchase outside-plan goods from SOEs at prices higher than planning prices but lower than market prices. SOE managers in many cases used revenue from selling outside-plan goods to fund bonuses or welfare funds for their workers. In contrast to self-employed entrepreneurs who became rich by producing and selling goods in the market, these new elites accumulated wealth mainly through market speculation with the assistance of political power and bribes. This kind of corruption, known as *guandao* (official profiteering), provided a way to convert political power into private wealth.[27]

Guandao reveals the fundamental contradiction in the accumulation regime in the 1980s. This contradiction lies in the impact of market incentives on the capacity of the state, reflected by the relative decline in the taxes and profits controlled by the state that could be used for government expenditure and accumulation. The 1980s witnessed a substantial decline in the share of profits and taxes in the net value added of SOEs.[28] Fiscal income as a share of the national income declined from 30.8 percent in 1978 to 14.3 percent in 1991.[29] The reforms were designed to generate incentives in the incremental part of output. However, once market incentives mobilized new elites, SOE managers, and state officials, resources were diverted to the market and converted into private income in various forms such as the rents captured by new elites and bribes captured by SOE managers and officials.[30] As a result, the shares of profits and taxes captured by the state were reduced.

The formation of this new class had a substantial impact on the state. As increasingly more output was allocated through the market, new elites gained more economic power and the state's fiscal capacity declined.[31] The decline in the state's capacity in China was the cause of the limited fiscal support provided by the state to SOEs in the early 1990s and later the insolvency of some of these enterprises.

[25]Hu 1989.
[26]Li 2001.
[27]Sun 2004.
[28]Qi 2018.
[29]Authors' calculation, using data from the China Statistical Yearbook 2018.
[30]Qi 2018.
[31]Wang and Hu 1993. A fall in the state's fiscal capacity also happened during Gorbachev's economic reforms in the USSR. See Kotz and Weir 1997, 73.

By the end of the 1980s, the state confronted problems associated with the emerging elites, including corruption and social injustices. In 1988, concerned with these problems, the state initiated a radical reform to liberalize prices, in part to eliminate *guandao*. However, this failed because it induced panic buying and social unrest.[32] Among those participating in the 1989 social movement were the new elites who had gained great benefits from the economic decentralization policies of the 1980s.[33] After the government repressed the social unrest in June of 1989, leaders in favor of economic and social stability and more cautious policies dominated policy making at the central level. Between 1989 and 1991, some high-level officials and businessmen who had engaged in *guandao* were investigated and arrested.[34] However, this short-lived anti-corruption movement failed to repress the new elites, in part because even relatives of some key leaders reportedly engaged in *guandao*.[35] Following the demise of the Soviet Union, Deng Xiaoping hoped that economic growth through further marketization reforms would bolster the party-state. In 1990, Deng explicitly said, "Why do the people support us? Because over the last ten years our economy has been developing … if the economy stagnated for five years or developed at only a slow rate … this would be not only an economic problem but also a political one."[36] In his famous southern tour at the beginning of 1992, Deng clearly sent signals to other leaders, including those in favor of stability, announcing that "whoever is against reform must leave office."[37] Following his southern tour, state officials were encouraged to establish companies and engage in market activities. This was the start of a "great compromise" between the state and the new elites. This compromise constituted the background for the privatization of state-owned and collective enterprises as well as a symbiotic relationship between local government officials and private entrepreneurs. But this did not mean that new elites could challenge the party or state politically. In the late 1990s, restructuring of the state-owned sector led to the consolidation of strategically positioned state-owned enterprises that could control the nodes of accumulation, play a crucial role in technological progress, carry out counter-cyclical macro policies, and secure natural resources from abroad. SOEs that remained in business slashed their social and worker responsibilities and focused on strategic industries such as energy, chemicals, steel, telecommunications, and banking. This alliance between a private capitalist class and state power reveals a dialectical relation between politics and economics. A political compromise partially was a result of economic contradictions in the 1980s, while economic shifts such as marketization and privatization in the 1990s were premised on a political compromise and the particular structure of the state's political power.

Primitive accumulation and the low-road faction

While *guandao* gave the new elites an opportunity to accumulate wealth through market speculation, it did not enable them to dominate production and thus form a capitalist

[32]Zhang 2016, 563.
[33]Wang 2011, 31.
[34]Li 2001.
[35]Meisner 1996, 326.
[36]Vogel 2011, 668.
[37]Vogel 2011, 673.

class. It was the privatization of SOEs and TVEs (township and village enterprises) in the mid- and late 1990s and later the expropriation of rural land that allowed private entrepreneurs to dominate production and thus control investments and employment. Privatization of public assets and land expropriation are forms of primitive accumulation that involve "the historical process of divorcing the producer from the means of production."[38] Similar to *guandao*, privatization and expropriation converted political power into private wealth and led to the emergence of the new capitalists – former managers of state-owned and collective firms, local officials, and manufacturers, and real estate speculators, who captured rents from land expropriation by making use of their symbiotic relationships with local government officials.[39]

Inaugurated with the slogan "grasp the large and let the small go" (*zhuada fangxiao*), privatization entailed a broad and diverse reorganization of the ownership structure of the enterprise sector, leading to the emergence of a domestic capitalist class and the strategic positioning of large SOEs. Newly privatized firms achieved rapid growth by taking advantage of formerly public assets and technologies while downsizing their workforces and disciplining their workers that remained with unemployment threats. For these new capitalists, privatization occurred via a process that often resembled a transfer of assets rather than a sale. The beneficiaries were insiders with deep connections, often ex-factory managers or local officials. Generally, these insiders were able to affect the pricing of assets because of insider information about particular assets or their personal connections with local government officials, which resulted in asset losses, debt forgiveness, and subsidized credit for investors who lacked their own sufficient capital. There have been many cases of former SOE managers or local officials who did not pay anything out of pocket but became owners of privatized enterprises by means of loans to be paid with future profits.[40]

The large-scale expropriation of rural land was a second and powerful mechanism for primitive accumulation. Through the expropriation and commodification of rural land, capitalists gained a considerable share of the rents distributed to rural collectives – the original landlords. Although rural land is owned by rural collectives in China, local governments have the right to expropriate a certain amount in the name of the public interest. At the turn of the twenty-first century, the country went through an "epidemic" of expropriation, fueled by both the expansion of the housing market (inflated by rapid urbanization and speculation) and the fiscal needs of local governments.[41] Case studies show that fiscal revenue from land expropriation accounted for between thirty percent and sixty percent of total revenue at the municipal level in the mid-2000s.[42] An estimated seventy million farmers had lost their land by 2006 in return for "grossly inadequate" compensation.[43] Case studies that have attempted to measure the national mean value of compensation suggest that compensation to farmers has been between one percent and ten percent of the price paid by those who received the grant of land.[44] The country's

[38]Marx 1976, 875.
[39]Note that these capitalists were not necessarily the new elites, although some of the new elites became well-known private entrepreneurs in the 1990s. See Sun 2004.
[40]Lau 1999; Li and Rozelle 2004; Chen 2006; McNally and Wright 2010.
[41]Riskin 2008.
[42]Tao et al. 2010.
[43]Riskin 2008.
[44]Tao et al. 2010; Zhou 2008; Guo 2003.

arable land had shrunk to 1.827 billion *mu* by the end of 2008, only slightly above the 1.8 billion *mu* (120 million hectares) the government has set as the minimum needed for national food security.[45]

Privatization and the expropriation of land contributed to the formation of the low-road faction of private capitalists, whose accumulation mainly depends on access to cheap labor and cheap land. Layoffs after privatization of SOEs and the explosion in the number of landless migrants dramatically expanded the country's reserve army of labor while local governments' strategies for attracting investment prepared the conditions for cheap land.

While the compromise was a prominent feature at the central state level, the relationship between the state and private capital at the local level was more symbolic. The central government pursued both social stability and economic growth whereas local officials, faced with meeting promotion incentives, tended to solely focus on economic growth. Especially since tax reforms in 1994, local government officials have sought to overcome budgetary constraints in a number of ways, including using their control over the conversion of rural land as a way to increase off-budget income and attract investments to their regions.[46] This difference has made the state-capital relationship more clientalistic at the local level.[47] On the one hand, private industrial investors are able to push local governments to expand the spatial possibility of accumulation via land expropriation and infrastructure building, pressuring them to provide lower labor standards, land costs, and environmental standards. Real estate developers have kept a significant share of the ground rent generated through local governments' infrastructure building that has contributed to urbanization and population concentration. On the other hand, both industrial investors and real estate developers have helped local governments to maintain solvency. In the early 2000s, to attract investments, local governments tended to individually negotiate with investors instead of holding public bids. In extreme cases around the Pearl River Delta, the price paid for land was virtually zero.[48] Moreover, given local governments' pursuit of economic growth and urbanization, the annual land conversion quotas determined by the central government have been explicitly ignored.[49]

A comparison of real estate profits and net land transfer income shows some characteristics of the symbiotic relationship in which domestic capitalists achieve profits and local governments generate fiscal income from land transfers. From 1998 to 2015, the gross land transfer income to local governments rose from 50.8 billion yuan to 3078.4 billion.[50] Local governments need to spend a significant part of their land transfer income on preliminary infrastructure construction and to a lesser extent compensation for land expropriation; thus, only the net land transfer income can be treated as gains by the local state. Figure 2 compares the growth of local governments' net land transfer

[45]Sources: *China Statistical Yearbook 2009*.
[46]The legislation governing urban land ownership is distinct from rural land. In rural areas, there has been no concentration of land partly due to the collective regime. In cities, the real estate market functions the same as in most capitalist countries. Urban land is owned by the state, but private ownership is permitted in the case of urban real estate, which today is exchanged according to market rules. Anything that is built on urban land by private interests is classified as private property.
[47]Ong 2012.
[48]Tao et al. 2010.
[49]Zhou 2008.
[50]Sources: various issues of *China Fiscal Yearbook* and *China Land and Resources Statistical Yearbook*.

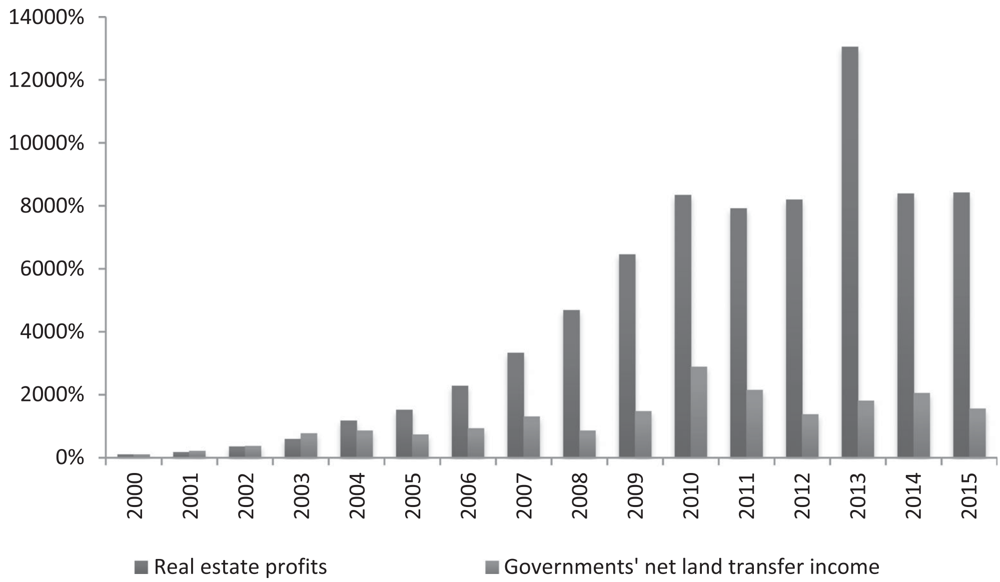

Figure 2. Growth of real estate profits and net land transfer income, 2000–2015 (2000 = 1).

Notes: Real estate profits are the profits of real estate enterprises. Governments' net land transfer income comprises total land transfer income less land transfer costs. Land transfer costs comprise governments' expenditures for the compensation of land acquisition and preliminary infrastructure construction. All values are in nominal terms. Both values in 2000 are set to 1. The Ministry of Finance does not report land transfer costs between 2000 and 2007. We thus have estimated the ratio of net land transfer income to land transfer income based on a linear trend and then calculated net land transfer income and land transfer costs using this estimated ratio. Source: Real estate profits and building costs data come from the China Statistical Yearbook 2016. Land transfer income and land transfer costs data come from the website of the Ministry of Finance.

income to that of real estate enterprises' profits from 2000 to 2015. The data show that the profits of real estate enterprises have grown more rapidly than has the net land transfer income of governments. The result has been a distorted system of urban land expropriation that benefits real estate developers and industrial entrepreneurs, alleviates local budget constraints, but places the cost of rapid urbanization on ex-peasants, which in turn coerces the landless to sell their labor power.

Strained alliance

The rise of the low-road faction corresponded to the formation of an investment-led and export-led regime of accumulation. Export producers were the most important players in this regime, while the restructured state-owned sector also played a crucial role. With the support of the state-dominated banking system, SOEs and local governments carried out massive investments, particularly in infrastructure, which significantly promoted and stabilized economic growth under the regime. Favorable domestic conditions and the restructuring of global capitalism made China a world factory. However, this investment-led and export-led regime had contradictions which arose from both internal class conflicts and external constraints. Internally, this regime intensified social unrest while increasing wages for migrant workers threatened the sustainability of the regime. Externally, China's domestic capitalists were located at the lower end of the global value chain due to technological disadvantages, which also challenged the sustainability and profitability of the regime.

First, privatization and land expropriation led to social unrest, especially among laid-off workers and landless peasants. Due to reforms in the state-owned sector, about fifty million jobs were lost between 1995 and 2003,[51] leading to a reserve army of laid-off workers and an explosive increase in job informality.[52] Laid-off state employees spontaneously took to the streets, strongly anchored in the Maoist discourse of socialist rights and public ownership of the means of production. These protests of despair were also caused by the accelerated commercialization of public services, especially health and education, and the dismantling of *danwei* (work units), the former socialist system of urban social protection.[53] On the side of the landless peasants, over the course of the 2000s, conflicts over land were the main cause of mass incidents, due to the historical relationship between land use and social protection.[54] This social unrest demanded a more sustainable regime of accumulation to contain internal conflicts.

Second, since 2004, the rapidly growing export sector in coastal regions has experienced a labor shortage, leading to substantial increases in the wages of migrant workers.[55] While there was a large reserve army of labor in both rural and urban areas thanks to demographic reasons and institutional shifts, labor processes in the export sector, characterized by long hours, high intensity, and low pay, meant that only some workers out of the reserve army met the needs and accepted such working conditions. As labor shortages continued, the struggles of migrant workers also increased, backed by stronger bargaining power.[56] The disadvantage of Chinese capitalists in the global value chain has restricted their capacity to absorb wage raises, making the export-led regime unsustainable.

Lastly, the state's "Trade Market for Technology" (TMFT) strategy failed. The TMFT strategy was promoted by the central government in the 1980s and 1990s as a replacement for the Maoist self-reliance strategy for technological progress. While no national leaders opposed introducing foreign technologies, there was a debate within the CCP leadership in the early 1980s about whether the self-reliance strategy should be abandoned. Supporters of introducing foreign technology dominated the state at the time; as a result, some crucial projects such as the Shanghai Y-10 aircraft were abandoned.[57] The strategy adopted then was to encourage the transfer of advanced technologies by establishing joint ventures and allowing foreign firms to enter the domestic market and keep some monopoly.[58] However, this strategy failed to bring about sound technological transfers because these joint ventures typically only manufactured products and did not participate in any research and

[51]Chavance 2017.
[52]Lee 2016.
[53]This vacuum in social protection was only seriously addressed in the second half of the 2000s, after intense conflicts and varied mobilizations promoted by members of the precarious working class.
[54]Equal distribution of land among the rural population has been the main social protection mechanism in the countryside since the end of the communes. But universal access to land in rural areas is an impediment to the formation of a landless poor class, as is the pattern in so many underdeveloped countries, and is the main guarantee of subsistence for rural workers in the absence of a social protection system. Not only do migrants return to their land when they lack work in cities, old and sick people find some form of protection against extreme poverty and destitution by having land rights. See Riskin 2008.
[55]Lu 2012.
[56]The number of labor disputes reported by the government increased by fourfold from 2000 to 2008. For more information, see the *China Statistical Yearbook*.
[57]Lu 2006.
[58]Lazonick and Li 2012.

development activity.[59] The transformation of the global production network also made technology transfer ineffective. Criticism of the state's science and technology strategy arose from intellectuals. They were concerned that China's dependence on an unsuccessful technology transfer approach would jeopardize not only the sustainability of growth, but also economic independence and national security.

Given internal conflicts and external constraints, a consensus arose within the CCP that the party's political legitimacy had to be rebuilt and the social costs arising from the unleashed expansion of capitalism reduced.[60] Since the mid-2000s, these contradictions and the consensus within the party have led to a re-adjustment of the relationship between the state and the new-born capitalist class, leading to what we call a stage of "strained alliance."

The innovation faction and the finance faction

The state's initial strategy was to initiate systematic support for indigenous innovation, seeking to summarize a broad set of policies to stimulate innovation and the formation of global Chinese brands and technologies. As the evidence below shows, both state-owned companies and the innovation faction of private capitalists greatly benefited from this support. This strategy should be regarded as the state's response to the external constraints and internal contradictions mentioned above. While it is undeniable that these policies were associated with China's catching up with advanced countries in technologies and the state's pursuit of economic independence, they also reflect the state's motivation to reduce the economy's reliance on cheap labor.

These policies gained momentum in 2006 when the *Zizhu Chuangxin* ("Indigenous Innovation") program was launched by the Hu Jintao and Wen Jiabao administration.[61] This program set up a national plan involving several ministries in ambitious megaprojects. The indigenous innovation program adjusted the relationship between the state and domestic capitalists, requiring that the expansion of private capital takes into account political legitimacy and social conflicts. This program, along with the concept of a "Harmonious Society" proposed by the Hu-Wen administration and the "Common Prosperity" program proposed by President Xi Jinping, signaled that the new class should contribute to rebuilding the state's political legitimacy. The pursuit of technological progress has persisted under the current administration. It is interesting to note that a significant proportion of private entrepreneurs invited by the symposium held by Xi Jinping in 2018 came from high-tech industries.

While the Indigenous Innovation program relied heavily on restructured SOEs, it supported private firms in a selective manner, revealing the state's tendency to adjust the regime of accumulation. Two instruments have been widely used as innovation policies based on domestic demand: public procurement and the choice of technical standards, both much contested by international competitors. Equivalent to 3.5 percent of GDP in 2016, government procurement was quickly perceived as an instrument for boosting

[59]Lu 2006; Zhou and Liu 2016.
[60]Wang 2008; Hui 2017.
[61]This program further developed into the *Zhongguo Zhizao 2025* ("Made in China 2025") program in 2015, which is believed by some analysts to be the real target of Donald Trump's trade war against China. Cf. Dodwell 2018.

national brands.[62] A main beneficiary of the program was Lenovo, a private company with a state-owned history. The choice of technical standards by the state has often been used in the telecommunications sector to support Chinese firms. Both Huawei and ZTE, two major Chinese telecommunication companies, were favored by the government's decision to select the V5.1 standard, used in switching systems for large capacity telephone exchanges and jointly developed by these two firms.[63] As most foreign firms did not produce systems under this standard, the expansion of domestic brands was significant until competitors from outside managed to adapt.[64] The third-generation mobile phone standard is a telling example of the cooperation between SOEs and the innovation faction. From the mid-2000s onwards, there have been reports of pressure from Chinese manufacturers for protecting indigenous technology via, for example, technical standards for mobile phones. In 2009, the government selected TD-SCDMA as the technical standard for third-generation mobile phones, after intense disputes between domestic state-owned operators, foreign manufacturers, and domestic private manufacturers.[65] The standard was developed by Datang, an SOE that had suffered from competition with foreign manufacturers (mainly Motorola and Nokia) and domestic operators but was supported by domestic manufacturers. In 2009, 3G TD-SCDMA was adopted nationally and accompanied by a national support program that provided domestic manufacturers with access to credit and subsidies.[66]

Repressing the finance faction is the second part of the re-adjustment of the relationship between the state and the new capitalist class, and also is evidence of increased tensions in this relationship. This faction includes capitalists who speculate in major financial markets such as the stock market via commercial banks, financial holding companies, investment funds, and insurance companies that they own or control. The rise of the finance faction has constituted a crucial part of the financial overdevelopment that took place when China's industrial sector lost momentum as the global economy was trapped in the 2008 Great Recession. The state stimulus package in 2009 and 2010 effectively postponed an economic slowdown in the PRC but finally lost momentum as the package dramatically increased the leverage of both local governments and SOEs, which gave rise to the significant expansion of a shadow-banking sector.[67] The economic slowdown discouraged private non-financial investments. The annual real growth of private non-financial investment was minus 2.3 percent in 2017 – the lowest rate since the mid-1990s. Meanwhile, private capital in the financial faction increasingly concentrated and engaged in speculative activities that could threaten the overall financial stability and security.

This faction raised capital through the financial institutions that they own or control. Baoneng's hostile takeover of Vanke – one of China's largest real estate developers – is a well-known example. In 2015, as a private financial services conglomerate, Baoneng raised 26.2 billion yuan to buy Vanke stock, using asset management plans (AMP) issued by a financial company owned by Baoneng. The majority of the funds used for

[62]Ministry of Finance of P.R.C. 2017.
[63]Huawei is a private-owned company and ZTE is a state-owned but private-operated company.
[64]Zhao et al. 2007; Nogueira 2015.
[65]Lee, Mani, and Mu 2012.
[66]Gao and Liu 2012; Nogueira 2015.
[67]Ehlers, Kong, and Zhu 2018.

the takeover came from a few commercial banks, particularly China Zheshang Bank. This joint-stock commercial bank provided Baoneng with 13.3 billion yuan, which ultimately came from the bank's wealth management products (WMP) sold to households, especially rich ones.[68] In 2018, Baoneng cashed out Vanke's stocks and harvested the profits. The speculative activities of this finance faction powered by the development of new financial products such as AMP and WMP not only disturbed the order of the stock market but also fed the bubble in 2014 and 2015.

One of the features that most strongly distinguishes China's accumulation regimes from other economies is its relative independence in relation to financialization.[69] Financialization, which has affected the rhythms and modes of accumulation in many countries since the beginning of neoliberalism in the 1980s, has not penetrated the Chinese economy in the same way. For the most part, this is because of a state-controlled financial system in which the state imposes limits on short-term capital flows and speculation.[70] However, the finance faction, together with foreign interests, are the ones pushing for the opening of China's capital account. In March 2017, during the Fifth Session of the Twelfth National People's Congress, executives from the financial and civil construction sectors openly criticized capital controls for hindering Chinese acquisitions abroad, which demonstrates the two-way movement between state forces and capitalists' interests.[71] So far, Chinese financial expansion has maintained relative autonomy in relation to the power of the U.S. dollar. But internal and external pressures are strong, and China's outflow of capital in 2016 showed its vulnerability to unregulated speculative movements. From 2015 to 2016, during a period of limited financial liberalization, China lost almost half a trillion dollars in international reserves, bringing total reserves down to below USD three trillion for the first time since 2011.[72] Since then, the government has imposed more stringent regulations on overseas investments by private capital. Tycoons such as Wanda Group and HNA Group have had to reduce their overseas investments due to these regulations.

The social tension generated by this fracture within the capitalist class is reflected in domestic struggles. Since President Xi Jinping's anti-corruption campaign began in 2012, thousands of corrupt officials have been arrested and punished, as well as some capitalists and officials who have made a fortune in the financial system. Wu Xiaohui, a member of the finance faction with strong ties to former high-level officials, was arrested in June 2017. Wu Xiaohui's holding company, Anbang Insurance Group, is one of the largest in the country, and has been notable for its billion dollar purchases of luxury hotels around the world. In November 2016, Wu tried to close a Manhattan hotel deal with Jared Kushner, the son-in-law and adviser to U.S. President Donald Trump.[73] This case is just one glaring example of the connections of a faction of Chinese capitalists with international capital, which the current Chinese leadership is trying to contain via intense internal struggle.

[68]Hua 2017.
[69]Lo 2016.
[70]Vermeiren and Dierckx 2012.
[71]Bloomberg News 2017.
[72]Tsui et al. 2017; Chen 2017.
[73]Haas 2017.

Table 2. Relationship between the Chinese state and the domestic private capitalist class.

	Privatization and land expropriation	Low-road fraction	Innovation fraction	Finance fraction
Contradictions of the accumulation regime	Accumulation by dispossession Inducing social unrest among laid-offs and landless peasants	Reliance on cheap labor and cheap land, inducing labor unrest and peasants' struggles Unsustainable due to rising wage and global economic downturn	Conflict between domestic capital and foreign capital in technology transfer and monopoly power	Financial instability and insecurity due to speculation and demands for financial liberalization Undermining incentives for capital accumulation
State-domestic private capital relation	Great Compromise	Great Compromise	Strained Alliance	Strained Alliance
State's forces	Deng's southern tour and push for marketization	State's pursuit for legitimacy through promoting economic growth	Economic independence in technological progress and releasing labor unrest	Economic independence in financial expansion
Capitalists' forces	Rise of new elites as a result of the 1980s reform	Manufacturing capitalists' pursuit for profits and competitiveness in global markets	Moving up in the global value chain	Rise of the finance fraction in the context of economic slowdown

Conclusion

We have shown how the formation and transformation of a capitalist class and its factions is intertwined with the dominant accumulation regime. In the period of a "great compromise," the state responded to pressure to reform the economy and strengthen the strategic positioning of the remaining SOEs. Likewise, the expropriation of peasants' land and the explosion of investments in housing and infrastructure greatly facilitated the emergence of China's first billionaires and paved the way for investment-led growth. In the period of "strained alliance," the conflicts generated by primitive accumulation were partially cooled by the rhetoric of a "harmonious society" and systematic state support for indigenous innovation. However, the factional basis of China's capitalist class, rapidly accelerated by financial expansion, generated new pressures on the state. The state responded by intensifying its repressive apparatus through, among other things, the anti-corruption campaign of President Xi Jinping (Table 2).

We reject the claim that the state firmly controls the new capitalist class. In our view, the seeming autonomous power of the Chinese state can only be fully understood by taking into account the historical trajectory of social relations. The state's autonomy is a legacy of the 1911 Revolution and class struggle that led to the foundation of the PRC. While the state in the reform era abandoned some of the goals of the earlier Maoist regime, it has retained the goals of economic development and enhanced living standards in order to maintain political legitimacy and to contain social conflicts. This autonomy is also the result of a gradualist path of reform. In contrast to a more radical path that led to economic recession and political rebuilding in Russia, the gradualist path assumed by the Chinese government and Chinese Communist Party has enabled the historical trajectory to play the role of generating persistent effects during the reform era. This also means an analysis of contemporary Chinese political economy should regard the state as a social relation with historical dynamics, rather than reducing the state to either a neutral supra-class or a servant of the capitalist class.

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