

# The Century of Chinese Corporatism

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Since its foundation in 1949, the People's Republic of China has engaged with corporatism as a model for organizing societal interests. China's corporatist elements, misunderstood as they often are by foreign observers, help to explain its economic successes and political resiliency. Across a variety of different forms of corporatism—some heavy-handed, some too decentralized—China has managed to maintain the political buy-in of its major economic and social stakeholders through a combination of economic advance, partial liberalization, and increased international profile. This cooperation could not have been maintained without corporatist arrangements. In spite of expectations that China would shift toward the West's pluralistic model of interest group competition, China has reemphasized the importance of corporatist negotiation arrangements as it transitions to a mature industrial economy of global importance.

In the Anglo-American imagination, corporatism usually calls to mind the authoritarian or fascist dictatorships of the early twentieth century, and corporatism is often wrongly thought to be wholly incompatible with liberal democracies. While it is true that corporatism was co-opted as a strategy of choice by nondemocratic regimes such as Mussolini's Italy and Salazar's Portugal, it has also been successfully used in many different forms by postwar democratic governments, including the United Kingdom, the Netherlands, Germany, Sweden, and Japan. In the late 1980s, the Democratic presidential candidates Gary Hart and Michael Dukakis even

suggested corporatism as a potential model for managing and mediating organized labor. Robert Reich, the secretary of labor during the Clinton administration, suggested the same.<sup>1</sup>

More recently, it has become something of a truism that U.S. leaders have misunderstood China and misjudged its political trajectory over the last few decades—just as they have been caught off guard by many important political and economic developments in the West. Part of the explanation for both failures is that American politicians have ignored the insights of corporatism, and have difficulty understanding corporatist models at home or abroad, whether in democratic or nondemocratic contexts.

In its most basic form, corporatism seeks to organize society into associations based on common interests (like business and labor) that work together to achieve harmonious results. The corporatist project is not a socialist one per se, nor on the other hand is it laissez-faire capitalism. Instead, as Alan Cawson once put it, corporatism offers a certain set of institutional mechanisms and structures in service of the state that can be applied across a wide spectrum of political regime types. In his own words, corporatism is

a socio-political process in which organizations representing monopolistic functional interests engage in political exchange with state agencies over public policy outputs which involves those organizations in a role that combines interest representation and policy implementation through delegated self-enforcement.<sup>2</sup>

Or as Philippe Schmitter, the contemporary grandfather of corporatist theory, writes, corporatism is

a system of interest representation in which the constituent units are organized into a limited number of singular, compulsory, noncompetitive, hierarchically ordered and functionally differentiated categories, recognized or licensed (if not created) by the state and granted a deliberate representational monopoly within their respective categories in exchange for observing certain controls on their selection of leaders and articulation of demands and supports.<sup>3</sup>

One of the essential elements of corporatism is that the state recognizes one association as the representative of a sector's interests. The state forms a partnership with the association, which generally occurs as a two-way relationship: the association is often asked for its position on current and prospective policies, as well as assistance to implement and execute policies.

The aim of corporatist models is to organize key segments of society into singular associations that mediate their members' interests. Even in the United States, many such associations already exist. A chamber of commerce, for instance, will represent business interests of all sizes and regions. This is how the U.S. Chamber of Commerce aptly describes its mission to represent the interests of more than three million U.S. businesses. Similarly, consider the example of the American Federation of Labor and Congress of Industrial Organizations (afl-cio), a federation of fifty-five unions representing more than twelve million working individuals, whose mission is to broadly advocate for labor rights.

The problem for nations without a corporatist model is that the direct mechanisms for engaging such associations in productive negotiation and collaboration, and for enlisting their assistance in implementing the government's policies and goals, often do not exist. Lacking a corporatist framework, pluralist systems use a model of organizing and relating interest groups that is characterized by divisive competition and conflict between various associations. Not only is such conflict tolerated, it is actively encouraged. Under pluralism, when the U.S. Chamber of Commerce and the AFL-CIO are at odds with each other (as often happens), one of their primary strategies is to bargain and lobby in a conflictual manner toward an outcome that may not fully please either side or serve the nation's overarching interests. Indeed, such conflict can often lead to suboptimal policy choices, particularly when viewed from the standpoint of the nation as a whole.

In addition, the pluralist-competitive model can engender distrust and even alienation among members of conflicting associations, while causing ambient distrust among the public. By contrast, the goal of corporatism is to encourage organized consensus and cooperation toward outcomes that serve the national interests.

When considering China, we must keep in mind that corporatism is not intended to be a complete account of the Chinese regime. Rather, it is an important and—in the West—often overlooked element that has changed and adapted through a number of different periods. In China's Maoist phase from the early 1950s to mid-1970s, corporatism took the form of an aggressive state-led effort to organize every aspect of society from the top down. But, contrary to the expectations of some observers, particularly those

subscribing to core neoliberal tenets, corporatism remained an element of market reforms under Deng Xiaoping, Jiang Zemin, and Hu Jintao (1978–2012), and it remains an important element of policy (philosophically and practically) under the current regime, shepherded since 2013 by Xi Jinping.

All told, since 1949 China has tried a large number of successful and not-so-successful corporatist experiments. What these phases have in common is a “state corporatist” (top-down) approach, albeit with shifting degrees of state involvement; and in the present era, a snail’s-pace effort towards building a “societal corporatism” (bottom-up), terms that I describe further below. Over the same time period, we have also witnessed a shift from a centrally controlled corporatist state to one in which the local state has greater space to implement corporatist techniques—allowing the formation of business and professional associations at the local level, and providing them a space for local, state-directed bargaining. But in spite of expectations to the contrary, China has become no less corporatist in the process; in fact, creeping pluralism in local forms of corporatism has prompted a rebalancing toward the interests of the nation as a whole.

As China embarks on its next decade, a consideration of Chinese corporatism is useful in two respects. First, foreign corporations and governments who engage with China, particularly if they come from pluralist-competitive societies, tend to misunderstand the nexus of businesses, organizations, and the state. They wrongfully presume that state direction and corruption are synonymous. A more nuanced understanding of Chinese corporatism, however, leads to an important second point—that some lessons learned by Chinese experiments in corporatism, during the very period of its ascent to becoming an economic superpower, may be

beneficial for foreign policymakers considering paths for improving their own public institutions.

## **From State Corporatism to Societal Corporatism?**

At its beginning seventy years ago, the People's Republic of China fashioned its corporatist template from the Soviet Union which, earlier in the twentieth century, had instilled corporatist elements into all aspects of the Soviet state. The key premise behind the Soviet and the then burgeoning Chinese model was that varying associational interests could achieve societal "harmony" with the state front and center. As the state led the Soviet Union and China through industrialization, the idea was that the state would be the "guardian of the common good," and of the "national interest that supersedes the parochial interests of each constituency."<sup>4</sup> In this approach, commonly called state corporatism, the Chinese state sought to develop close institutional arrangements with large associations in society.

In a socialist state such as China in the early 1950s, this project was rather difficult. In the early years of the People's Republic, the Chinese Communist Party (CCP) had effectively destroyed what existed of the private business sector, and virtually all industry was state-led under a socialist command economy. A "mass line" system, developed by Mao Zedong and the CCP, controlled associations called mass organizations that represented all the major social groups. Workers, for example, joined the All-China Federation of Trade Unions; youths joined the Communist Youth League of China; and women joined the All-China Women's Federation. This *hard* form of state corporatism was effectively a one-way, top-down transmission system

between the CCP-controlled government and the masses, rather than a two-way conduit for grassroots interests to reach the CCP leadership.

This *hard* form of state corporatism underwent a profound shift in the late 1970s to a *soft* form, when the Chinese state engaged in large structural market reforms which, at least at a surface level, fostered a relaxation of the CCP's control over society. Neoliberal analysts outside of China—hoping for a universal shift towards pluralist forms of association—expected the relaxation of state authority to result in a simpler system of free association. The shift from a hard to soft form of state corporatism did not yield these expected results. Rather, it is best understood as a movement from *overt* to *tacit sanctioning* of interest associations, with the state holding a firm grasp on mediating societal interests.

Previously, under a hard form of state corporatism, overt sanctioning relied on coercion and propaganda to compel individuals and organizations to act in the desired manner. In post-market reform China, the state continued its key role as a coordinator of associations primarily by way of tacit sanctioning. In this approach, associations are allowed to function on their own, as a substitute for the state, with some important caveats. With the assumption that a conflictual-competitive system will hold back national economic priorities and damage the social fabric, the tacit sanctioning framework championed by the CCP followed this typical setup: (1) the state creates and maintains the relationship between organizations; (2) select organizations and groups are granted the privilege to mediate interests on behalf of their constituents before the state; and (3) these organizations and groups must adhere to the rules and regulations established by the state.<sup>5</sup> Mechanisms like these are now employed to bridge potential gaps between

the state and society—for instance, in dealing with the new “red capitalists,” party members who have built successful private enterprises.

This seismic shift in state-society relations in China should not be understated. Prior to the market reform era, virtually all enterprises were directly under state ownership. By the early 1990s, Deng Xiaoping declared an explicit policy of “grasping the large [state-owned enterprises] and letting the small go,” in order to encourage market competition. While the central government retained control of the most strategically important state-owned enterprises—adopting a “commanding heights” model (*mingmai hangye*)—it relinquished control over the smaller ones.<sup>6</sup> Although the central government has shown a reluctance to definitively label the industries belonging to the *mingmai hangye* due to the political sensitivity of the issue, these industries are generally thought to include defense, the power grid, petroleum and petrochemicals, telecommunications, coal, civil aviation, and shipping. By 1993, seven of China’s industrial ministries had been eliminated, and the majority of these ministries—e.g., the Ministry of Light Industries and the Ministry of Textiles—were transformed into associations.<sup>7</sup> The industries considered essential to the national interest thus remain guided by the state, while a considerable degree of free activity is permitted in other areas where central direction is less necessary or efficient.

Far from leading to a general decline of corporatism, the shift ushered in an era of pioneering strategies to employ corporatist practices. The implications of these actions were twofold: First, while the state stepped back from its early hard form of state corporatism, it retained indirect control of the affairs of associations, with an eye toward maintaining economic advancement and



social stability.<sup>8</sup> Among the seven industrial ministries eliminated in the 1990s, for example, the majority of officials from these ministries were transferred to the new associations. Rather than fully tearing down the ministries, the previous forms of government expertise were redeployed in a new arrangement. The associations were thus able to retain their allegiance, trust, and close relationship with the government. Second, the shift towards a soft state corporatism provided space in which the *local* state could restructure, privatize, or shut down state-owned enterprises.<sup>9</sup> In effect, China had shifted to a more sophisticated federalist corporatism.

As China entered the World Trade Organization, and during the even greater liberalization of China's economy in the 2000s, many analysts and scholars imagined that China would move toward a form of corporatism that could be enforced voluntarily—a societal corporatism, so to speak.<sup>10</sup> The society-led form of corporatism was commonly found in other East Asian nations such as Japan and South Korea, which had already, more or less, transitioned from state to societal corporatism.<sup>11</sup> In a societal corporatist framework, institutionalized bargaining between an association's interests and the wider public's interests is shaped from bottom-up, grassroots efforts rather than the top-down model proper to state-led corporatism. Many analysts hoped that Chinese business associations and labor unions would begin to behave more like those in other East Asian countries, and be primarily influenced by their grassroots, constituent members.

Nevertheless, suggestions that there is (or is about to be) a transition from state to societal corporatism in China misses the point. The guiding philosophy and approach of the Communist Party of China, and the

current Xi Jinping government, is one in which the state will be the final arbiter of institutional relations—whether through overt sanctioning or tacit sanctioning.<sup>12</sup> Even if a weaker or more fragmented form of corporatism comes to pass, the state is still, strictly speaking, the ultimate entity that mediates Chinese society's larger interests. The reasons China has held onto forms of state corporatism become evident when we consider how market liberalization has actually played out at the local level.

## **Local Corporatism and the Drift from National Priorities**

While the CCP-controlled state has shaped every major aspect of contemporary Chinese society, the growing liberalization of the economy and the increasing complexity of social issues might suggest that the state is retreating from an array of issues.<sup>13</sup> Yet a survey of China's political landscape today shows that this analysis does not fully reflect reality. Not only is the central state playing an active and critical role in managing social problems, but the local state has become an important actor.<sup>14</sup> In fact, it is the local state that has been emboldened to engage with actors such as business associations and nongovernmental organizations. Instead of a "liberalization" of economic negotiation along Western pluralist-competitive lines, China showed that the local state could also foster corporatist arrangements while maintaining governmental guidance on the shape of the economy. Recent moves toward recentralization are best understood in this context—as a bolstering of national economic goals after local forms of economic planning had begun to be counterproductive.

During China's decentralization from the mid-1990s through the early 2010s, local states were given the power to make, and expected to make, a wide range of decisions, as well as take on added governance responsibilities. This led to hopes that a societal corporatism would emerge at the local level. One eager analyst, when looking into China's anti-dam movements (particularly at Three Gorges and Nujiang) and the role of NGOs in the process, observed that society's ability to challenge the local state had intensified.<sup>15</sup> And in the case of homeowners associations at the subnational level, their contentious behavior suggested to some analysts that China was turning toward a societal corporatist framework, since such associations provided an opportunity to organize at a grassroots level, resist, and pressure the local government.<sup>16</sup>

But the reality has been far different. While the local state did engage with societal actors, the local state was driven by its own interests<sup>17</sup> and, in true state corporatist fashion, picked strategic "winners" to back in certain industries.<sup>18</sup> There was little room for a full-blown societal corporatism, although a few signs, like the anti-dam movements and homeowners associations, briefly pointed in that direction.

The real political alternatives in China are not centralized state corporatism on the one hand and decentralized pluralism on the other. In fact, the local state has come to play a crucial role in the state direction of business interest negotiation. In that process the local state has itself become an important economic actor. Urban and rural industrialization have heavily relied on the local state as a business corporation.<sup>19</sup> Local officials have acted as entrepreneurs, fostering business opportunities, mobilizing resources and

other agencies within the local state to nurture selected business enterprises. Fiscal reforms provided incentives for local officials to actively promote local industry and economic development of their region since they had residual claimant rights over enterprise profits (although national regulations stipulated no more than 20 percent of after-tax profits could be claimed by the local government).<sup>20</sup> In addition, there has been an intimate relationship between banks, finance and tax offices, and township and village authorities, whereby each would assist the other to maximize revenues.

Regardless of the fact that the local state was broadly successful in facilitating economic reform, the potential for local officials to engage in rent-seeking and predatory behavior was inevitably present in this system.<sup>21</sup> Even though local associations' activities continued to fit the definition of corporatism on paper, the pursuit of local interests provokes a larger and important question: what happens if the local corporatist state's interests are at odds with the central corporatist state's interests? Normally, corporatism is predicated on fostering organized consensus and cooperation between associations (representing society) and the state with an explicit goal of serving the larger national interests. What happens if the interests at the subnational level are at odds with the national one?

Arguably, it was just such a state of affairs that Xi Jinping inherited when he came to power in the mid-2010s. Decentralization and the wavering shift towards a (hybrid/pseudo) societal corporatism did not necessarily lead to optimal outcomes. In many cases, the local state was given power to act in a corporatist manner for the sake of economic efficiency and social harmony, but the result had been a rise in local corruption and a disjunction between

the local state and national priorities. Xi's response was a vast and swift anti-corruption campaign that was used as a rubric to reconcentrate power in the central government's hands. Contrary to the dominant narratives in Western media, the goal was not a power grab pure and simple, but rather having the national interests and not local ones take precedence.<sup>22</sup> The shift toward local corporatism had begun to show some of the symptoms commonly associated with pluralist systems—local dysfunction and a lack of national coordination to achieve larger goals and interests.

## **The Lessons of Chinese Corporatism**

As China's global ascendancy matures into the middle of the twenty-first century, Western observers need to become better equipped to understand and navigate the central and local corporatist state in China. This need is especially vital in a climate of ongoing U.S.-China trade disputes.

Due to the absence of corporatism in the Anglo-American world, many Western participants have misunderstood Chinese businesses' corporatist relationship with the central and local state. This misunderstanding is reflected in how U.S.-based actors seek to influence China's domestic policymaking via Western-style interest group lobbying techniques. Such overt political bargaining or lobbying, outside of the bureaucratic state structure, is generally against the rules of success in the Chinese corporatist context.<sup>23</sup> Although pluralist-competitive lobbying has proved fruitful on occasion, it is widely perceived as an oddity in China, and Chinese authorities seldom concede vital elements of the policymaking process to private interest groups.<sup>24</sup>

Chinese associations generally try to influence policy decision-making through mutual, harmonious agreement rather than open opposition and confrontation. Understanding the operations of the Chinese corporatist state, and its complex relationship with societal associations, allows actors to better influence the state, so long as the goals sought are congruent with overall national interests. This harmony is the true ethos of corporatism—and it is a lesson that actors embedded in political life should seek to understand with greater appreciation.

Understanding state-society relations in China through a corporatist lens also allows us to understand why and when the Chinese state has chosen to reassert more centralized guidance over national economic life. To be sure, the process of economic liberalization has modified the tools available to the central state and local states for managing the economy and society. Both have moved from an overreliance on coercion and propaganda to the current tacit sanctioning strategy of developing close indirect ties with the main actors of society. But it is ultimately the state that mediates societal interests. Once China's trajectory is understood as continued experimentation with models of corporatism—rather than as the progressive embrace of liberalism—the developments of recent decades become much easier to understand.

Corporatism, whether state-centric or societal, proposes that organized consensus and cooperation is needed, rather than a competitive and conflictual bargaining process. “Harmony” is paramount in this conception, whether in a top-down state model or in a bottom-up, grassroots form. National goals and interests take primacy over the local state or associational interests. Rather than seeing corporatism as a heavy-handed imposition, however, we should think of corporatist relationships as finding ways to

encourage trust among different economic stakeholders and social participants. In properly functioning corporatist arrangements, ordinary citizens and members of associations can see more clearly how the state is trying to mediate, balance, and execute a variety of interests. It is thus not surprising that Chinese citizens and associations continue to have a high degree of trust in the central state.<sup>25</sup> The fact that many of the association members are CCP members,<sup>26</sup> or former central and local state government officials, who have an intimate understanding of the organizational behavior of the state, also helps in this process.

In the United States, by contrast, trust in government is at a historic low. According to the latest Pew survey, only 17 percent of Americans trust the federal government to do what is right, “just about always” (3 percent) or “most of the time” (14 percent).<sup>27</sup> A pluralistic system predicated on competitive interest group lobbying does not invite the requisite trust necessary for a fruitful partnership between the state and the various segments of society. Suffice it to say, declining institutional trust is a major problem in the current environment and likely will remain one for the foreseeable future. Americans may need to engage with corporatist models not simply to better understand China, but to deal with even greater challenges at home.

<sup>1</sup> Ira C. Magaziner and Robert B. Reich, *Minding America's Business* (New York: Vintage, 1982).

<sup>2</sup> Alan Cawson, *Organized Interests and the State: Studies in Meso-Corporatism* (Bristol: Sage, 1985), 8.

<sup>3</sup> Philippe Schmitter, “Still the Century of Corporatism?,” *Review of Politics* 36, no. 1 (January 1974): 93–94.

<sup>4</sup> Jonathan Unger and Anita Chan, “China, Corporatism, and the East Asian Model,” *Australian Journal of Chinese Affairs* 33 (January 1995): 30.

<sup>5</sup> Jennifer Y. J. Hsu and Reza Hasmath, “The Local Corporatist State and NGO Relations in China,” *Journal of Contemporary China* 23, no. 87 (2014): 522.

<sup>6</sup> For further information see Sarah Eaton and Reza Hasmath, “Economic Legitimation in a New Era: Public Attitudes About State Ownership and Market Regulation” (paper presented at the European Political Science Association, Milan, Italy, June 22–24, 2017).

<sup>7</sup> Jonathan Unger and Anita Chan, “State Corporatism and Business Associations in China: A Comparison with Earlier Emerging Economies of East Asia,” *International Journal of Emerging Markets* 10, no. 2 (2015): 184–85.

<sup>8</sup> Unger and Chan, “China, Corporatism, and the East Asian Model,” 37.

<sup>9</sup> Chang-Tai Hsieh and Zheng (Michael) Song, “Grasp the Large, Let Go of the Small: The Transformation of the State Sector in China,” *Brookings Papers in Economic Activity* (Spring 2015): 295–346.

<sup>10</sup> During the global height of neoliberalism, largely characterized by the Washington consensus, China maintained its state-centric approach in some



form or another. Indeed, a popular version of Chinese public policy came to be called the “Beijing Consensus.” For further information, see Reza Hasmath, “White Cat, Black Cat or Good Cat?: The Beijing Consensus as an Alternative Philosophy for Policy Deliberation,” *China’s World* 2, no. 1 (2017): 12–24.

<sup>11</sup> It should be noted that, in the context of Japan and South Korea, corporatism is often married with conceptions of a developmental state, whereby the state has dominated industrialization and, subsequently, the majority of social actors have been co-opted to focus on this national goal.

<sup>12</sup> Reza Hasmath, “Red China’s Iron Grip on Power,” *Washington Times*, November 9, 2012.

<sup>13</sup> Jennifer Y. J. Hsu and Reza Hasmath, eds., *The Chinese Corporatist State: Adaptation, Survival and Resistance* (London: Routledge, 2013).

<sup>14</sup> The local state structure is defined as the “organization of local government,” while local state practice denotes “the way local governments implement central policy and make and implement their own policy in the absence of higher-level guidance.” For further information, see Elizabeth J. Remick, “The Significance of Variation in Local States: The Case of Twentieth Century China,” *Comparative Politics* 34, no. 4 (July 2002): 399.

<sup>15</sup> Teh-Chang Lin, “Environmental NGOs and the Anti-Dam Movements: A Social Movement with Chinese Characteristics,” *Issues and Studies* 43, no. 4 (December 2007): 178.

<sup>16</sup> Benjamin L. Read, “Assessing Variation in Civil Society Organizations: China’s Homeowner Association in Comparative Perspective,” *Comparative Political Studies* 41, no. 9 (September 2008): 1240–65.

<sup>17</sup> Andrew Walder, “The County Government as an Industrial Corporation,” in *Zouping in Transition: The Process of Reform in Rural North China*, ed. Andrew G. Walder (Cambridge: Harvard University Press, 1998), 62–85.

<sup>18</sup> Marc Blecher and Vivienne Shue, “Into Leather: State-Led Development and the Private Sector in Xinji,” *China Quarterly* 166 (June 2001): 368–93.

<sup>19</sup> Jean C. Oi, “Fiscal Reform and the Economic Foundations of Local State Corporatism in China,” *World Politics* 45, no. 1 (October 1992): 99–126; and “The Role of the Local State in China’s Transitional Economy,” *China Quarterly* 144 (December 1995): 1132–49.

<sup>20</sup> Oi, “Fiscal Reform,” 111.

<sup>21</sup> Jane Duckett, *The Entrepreneurial State in China: Real Estate and Commerce Departments in Reform Era Tianjin* (London: Routledge, 1998).

<sup>22</sup> Jessica C. Teets, Reza Hasmath, and Orion A. Lewis, “The Incentive to Innovate?: The Behavior of Policymakers in China,” *Journal of Chinese Political Science* 22, no. 4 (2017): 505–17.

<sup>23</sup> Reza Hasmath and Caleb Pomeroy, “Convergence and Divergence amongst China’s Foreign Policy Think Tanks” (paper presented at the

American Political Science Association Annual Conference, San Francisco, August 31–September 3, 2017).

<sup>24</sup> Stefanie Weil, “The Strange Case of Pluralist Lobbying in a Corporatist Setting: Defending Western Business Interests in China,” *Business and Politics* 20, no. 1 (March 2018): 70–97.

<sup>25</sup> Andrew MacDonald and Reza Hasmath “Does Ideology Matter for the Citizenry in China?: Public Attitudes and Preferences for Economic Policies” (paper presented at the Midwest Political Science Association Annual Conference, Chicago, April 5–8, 2018). See also Wenfang Tang, “The ‘Surprise’ of Authoritarian Resilience in China,” *American Affairs* 2, no. 1 (Spring 2018): 101–17.

<sup>26</sup> For example, an increasing number of private entrepreneurs are members of the CCP and/or participate in the People’s Political Consultative Conference. For more information, see Keming Yang, “Keep Business for Business: Associations of Private Enterprise in China,” in *The Chinese Corporatist State*, 66–82.

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