China’s socialist market economy is starting to look much more like capitalism, creating a new dilemma for the nation’s communist leadership.

In the next few months, mainland China’s first free and competitive stock market, known as the second board market, will open. Unlike existing stock exchanges in Shanghai and Shenzhen, whose listings are mainly state-owned, partly privatized companies, the new market’s listings will consist largely of private Chinese businesses, many involved in high technology, and joint ventures between Chinese and foreign investors whose companies are registered in China. The Shanghai and Shenzhen stock markets will be consolidated in Shanghai and reconstituted as the first board market, while the new exchange will be based in Shenzhen.

The second board market, or “China’s Nasdaq,” will stimulate the country’s embryonic venture-capital industry and help sort out Chinese entrepreneurs and their start-up companies. It will enable emergent Chinese entrepreneurs to acquire financing from the country’s huge supply of domestic savings through issuing stocks in their own companies, thereby further expanding their dominance in the Chinese economy.

To the custodians of Communist orthodoxy, this presents a challenge. True, the party has accepted Deng Xiaoping’s permissive dic-

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Published in *The Los Angeles Times* on February 11, 2001 under the title “Communist Ideologues Struggle to Make Room for Capitalists.”
tum on market economics: It doesn’t matter what the cat’s color is, so long as it catches the mice. But some top Communist ideologues believe that the new stock market poses a troubling question: Should the party allow Chinese entrepreneurs to be members?

This is no idle question, as a recent conversation I had in Beijing with one of the Communist Party’s top theorists points up.

“State ownership of the principal means of production remains a fundamental tenet of Communist theory, notwithstanding recognition of the important role that markets must play, especially in the early stages of China’s development,” the theorist said. “So it would be inconsistent and inappropriate to include within the party entrepreneurs who have a fundamentally different belief.”

Yet, he readily acknowledged another side to the issue, one that would sacrifice ideology in favor of pragmatism. “If these entrepreneurs are not included inside the party, they will be more inclined to form other groups outside the party, and they will have the resources to do so.”

I suggested that the dilemma may resolve itself, since entrepreneurs of start-up businesses typically spend all their waking hours on their businesses. As such, they probably wouldn’t want to become party members, let alone have the time to do so.

The theorist corrected me. Workers respect party membership, he said, and that respect raises their productivity. Then he added, “Party members also are likely to have more influence and be more effective in their dealings with government officials than are non-party members.”

Both responses are cause for pause, especially the second, since it implies favoritism and perhaps more egregious forms of corruption in the future, despite official pronouncements that the entire system’s legitimacy depends on expunging corruption. Indeed, if entrepreneurs were admitted into the Communist Party, thereby ensuring them greater market influence, the party itself, rather than rooting out corruption, might inadvertently promote it.

Short of that, a new entrepreneurial capitalist class inside the Communist Party would markedly push the party in a pluralistic direc-
tion, perhaps along the lines of Japan’s faction-riven Liberal Demo-
cratic party. But if entrepreneurs remain non-members, the party
will likely become increasingly remote from, and decreasingly rele-
vant to, developments in the real world.

More broadly speaking, the Chinese Communist Party will either
metamorphose along with the economy or it will be eclipsed. The
opening of the second board market will move us closer to the an-
swer.

Postaudit

Five months after this essay was published, private businessmen (i.e.,
“capitalists”) were declared eligible for membership in China’s Com-
munist Party, but launching of the second board market has been in-
definitely deferred.