

**From Political Power to Personal Wealth: Privatization, Elite Opportunity, and  
Social Stratification in Post-Reform China\***

Duoduo Xu ([ddxu@ust.hk](mailto:ddxu@ust.hk))

Division of Social Science & Institute for Advanced Study (IAS)

The Hong Kong University of Science and Technology

Xiaogang Wu ([sowu@ust.hk](mailto:sowu@ust.hk))

Division of Social Science

The Hong Kong University of Science and Technology

---

\* An earlier version of this article was presented in the Spring Meeting of the International Sociological Research Association— Research Committee on Social Stratification and Mobility (RC28), Central European University, Budapest, Hungary, May 8-10th, 2014. We thank the HKUST Institute for Advanced Study (IAS) and Institute for Emerging Market Studies (IEMS) for financial support ( “Self-employment and Entrepreneurship in Post-socialist Transition Economies: A Comparative Study of China, Russia, and Vietnam since the 1990s” [IEMS14HSS07]). Direct all correspondence to Duoduo Xu (email: [ddxu@ust.hk](mailto:ddxu@ust.hk)) or Xiaogang Wu (email: [sowu@ust.hk](mailto:sowu@ust.hk)), Social Science Division, Hong Kong University of Science & Technology, Clear Water Bay, Hong Kong SAR, China.

# **From Political Power to Personal Wealth: Privatization, Elite Opportunity, and Social Stratification in Post-Reform China**

## **ABSTRACT**

The impact of market transition on the changing order of social stratification in post-socialist regimes has been a heated research topic in past decades. However, the debate has yielded no concrete conclusions, due in part to the lack of substantive institutional analysis. In this article, we aim to provide new answers to this age-old question by specifically examining how the privatization of China's state-owned enterprises has created economic opportunities for the political elite. Based on firm-level data from a national representative survey on Chinese private enterprises and their owners, we show that the political elite in some regions successfully converted their control power into personal wealth by acquiring privatized firms. The extent to which they could exploit such opportunities was contingent on how the privatization process was structured and regulated locally. Auxiliary analysis reveals important structural inequality among China's new managerial class, with those former *nomenklatura* still enjoying significantly better political connections and higher status than other private entrepreneurs.

**Key words:** transition economies, privatization, political elites, economic reform, stratification, China

# **From Political Power to Personal Wealth: Privatization, Elite Opportunity, and Social Stratification in Post-Reform China**

## **INTRODUCTION**

As a rapidly-evolving economy undergoing tremendous socioeconomic transformations, post-reform China has been of significant interest to social scientists exploring social change and inequality (Bian 2002). In particular, a generation of scholarly work has been devoted to the social consequences of the market transitions in China and other former state-socialist countries in Eastern and Central Europe. The major theme of this line of research has been to identify the winners and losers during the transition from a redistributive to a market-oriented economy. The socioeconomic prospects of former political elites in post-socialist regimes have been at the center of the debate.

While earlier controversies were mainly centered on whether economic returns to political power decreased or increased during such market transitions (Bian and Logan 1996, Cao and Nee 2000, Nee 1989, Rona-Tas 1994, Nee and Cao 2005), scholars have now reached a consensus that, given the complexity and variability of the transformation, the direction of its impact cannot be predicted without specifying concrete conditions and institutional circumstances (Zhou 2000b, Walder 1996, Parish and Michelson 1996, Wu 2002, 2006, Nee and Cao 2005). They advocate substantive institutional analysis venturing beyond a binary distinction between the state and the market (Zhou 2000b) and call for new attention to be paid to important institutional changes which indicate the nature of a transition, such as the reallocation of assets, fundamental changes in

ownership structure, and the political processes by which market economies have become established (Walder 1996). Inspired by those insightful critiques, this study was designed to provide an in-depth understanding of social stratification in transition economies by specifically examining how former political elites' economic opportunities were shaped by the process of privatization.

The privatization of publicly-owned enterprises is regarded as one of the key steps in the transformation of a planned into a market economy. Although it has been widely implemented in most transition economies, the scale of China's privatization has been the largest in human history by far. Close to 100,000 firms with assets worth ¥11.4trillion (US\$1.63trillion) at the time were privatized between 1995 and 2005 (Gan 2009). Such massive privatization brought fundamental changes in the ownership of and control over Chinese corporations and also created a new elite class of private entrepreneurs (Walder 2011). However, many members of this new managerial class belonged to the former *nomenklatura* who took advantage of the institutional changes to convert their political privilege into economic benefits (Kung 1999, Ding 2000, Li and Rozelle 2003). Although it is well-recognized that privatization in China opened a window of opportunity for rent-seeking political elites (Walder 2003), there has been little scholarly effort to empirically examine the specific processes and mechanisms. Even less is known about the extent to which political elites' ability to acquire state assets depended on how the privatization process was structured and regulated. Most importantly, privatization in China was largely initiated and dominated by sub-national governments. That may have produced great regional variations in local institutional circumstances and privatization strategies with substantially different rent-seeking behavior and consequences.

To understand the changes in China's socioeconomic structure, it is of particular importance to investigate the opportunities as well as the constraints faced by political elites in the process of privatization. However, to our knowledge, no systematic research using nationwide data over the entire historical period has been conducted to address this issue. One of the main obstacles is that individual- or household-based social surveys rarely take in a sufficient number of the political elites,<sup>[1]</sup> let alone details on their social origins and the value of assets they own or control. Ethnographic studies, on the other hand, usually suffer from limited representativeness and cannot adequately evaluate how the influence of privatization varies with the social context.

This study was designed to fill this gap by examining the dynamics of the embezzlement of public assets by political elites during the nation's economic restructuring. Rather than using Communist Party membership as a proxy for political power as many studies have done, this one focused on a much more exclusive elite group, including those who held direct control of public assets (i.e., former SOE managers) and those who exerted a direct influence on redistribution orders (i.e., former high-ranking government officials). By matching firm-level data from a nationwide survey of Chinese private enterprises with provincial-level economic statistics, the study examined the role of local governments in determining specific strategies of privatization, which in turn defined the opportunities and constraints faced by elite insiders in converting their political privileges into personal wealth.

The analyses involved three interrelated steps. The first was to examine how local governments' decisions about the timing and extent of privatization varied with the social context. We then examined how the contextual factors affected the opportunities

available to political elites to acquire public firms through privatization and to accumulate personal wealth. Lastly, we investigated the political connections and status of former political elites and other private entrepreneurs in an attempt to uncover any structural inequality.

The rest of this article is organized as follows. Section 2 reviews previous literature on economic returns to political power in transition economies. Section 3 sketches the historical background of China's privatization and its implications for political elites' economic opportunities. Section 4 assesses how specific privatization strategies were influenced by local governments' economic and political considerations. Section 5 describes the data and variables. Section 6 presents empirical findings, and conclusions are drawn in Section 7.

## **ECONOMIC RETURNS TO POLITICAL POWER IN TRANSITION ECONOMIES**

The late 20<sup>th</sup> century witnessed large-scale market transitions in former state-socialist countries. This has inspired many scholars to examine the relationship between economic modes and social stratification. In Polanyi's seminal work (1944) and further elucidation by Szelenyi (1978), it is argued that a society's stratification order is based on the dominant mode of economic integration within it. Political power and loyalty are important factors affecting social inequality in a redistributive economy, whereas the transition from a redistributive to a market economy may fundamentally alter the ways in which political elites are rewarded. Accordingly, Nee (1989)'s theory of market transition

predicts the decline of the former elite, as a transfer of power usually favors direct producers over redistributors (Nee 1989).

That prediction has, however, been challenged by contradictory empirical findings, leading to heated debate about the fate of former political elites in transition economies (Bian and Logan 1996, Rona-Tas 1994, Zhou 2000a, Bian and Zhang 2002, Walder 2002, Xie and Hannum 1996, Walder 2003, Gerber 2000, Wu 2006). For instance, based on data from a panel survey data in Hungary, Rona-Tas (1994) showed that former cadres were able to convert their past political power into economic advantage by seeking new positions in the private sector as entrepreneurs. Using retrospective data from the major Chinese city of Tianjin, Bian and Logan (1996) found that the incomes of workers in occupations with redistributive power had increased disproportionately since the reforms. Other studies from a different perspective have questioned whether the changes in economic returns to political power may be attributable to co-evolving socioeconomic changes such as economic expansion (Walder 2002) and structural changes in the labor market (Gerber 2002) rather than to the market transition per se.

This debate has yielded no definite answers, as a consensus has emerged among scholars that, given the complexity and variability of market transitions, “the conditions under which, and the reasons why, markets lead to a relative decline, or increase, in cadre power or income” must be identified (Walder 1996). They generally agree that it is unrealistic to predict the impact of a market transition without specifying its concrete conditions and institutional circumstances (Walder 1996, Zhou 2000b, Parish and Michelson 1996, Wu 2006, 2002). In other words, instead of asking generally whether economic returns to political power decreased or increased during a market transition,

one should ask why and how any observed changes occurred and which social contexts facilitated or hindered them.

In this process, some key institutional changes that characterize the nature of a transition have been largely neglected—the reallocation of assets, fundamental changes in ownership structure, and the political process through which a market economy became established (Walder 1996). The privatization of public firms in many transition economies may play a particularly important role in changing the society's stratification order, but there has been only limited scholarly work examining its origins, processes, variations, and subsequent consequences for socioeconomic inequality in a systematic way.

## **PRIVATIZATION AND ELITES' ECONOMIC OPPORTUNITIES**

In 1991 Staniszkis published one of the few studies focusing specifically on the implications of privatization for social stratification. Her book points out that in the process of privatizing and restructuring state-owned enterprises, strategically-located cadres may have taken advantage of their positions to acquire state property (Staniszkis 1991). Specifically, they tried to turn their limited control over state property into quasi- or real ownership through exploiting their access to valuable business information and to credit. Eyal and his colleagues (1998), on the other hand, have shown that most former managers of state-owned enterprises in Central Europe acquired some assets during their privatization, but it was typically on a relatively small scale. Instead, they were more willing to set up small subcontracting firms owned by themselves or by their family



members. Walder (2003) claims that although privatization created unprecedented opportunities for elite insiders, those opportunities depended heavily on contextual factors such as the extent of regime change or barriers to asset appropriation. Policy and regulatory environments also imposed different constraints on embezzlement.

China's privatization process provides an ideal setting for further investigating unresolved questions about the economic prospects of political elites during the market transition. There was a fundamental shift in the relative dominance of the public and private sectors in the economy. Figure 1 shows that while reforms began in 1978, it was not until the mid-1990s that a sharp decline in employment at state- and collectively-owned work units could be observed, accompanied by a rapid increase in private employment as many public firms were privatized. It is well known that the development of the Chinese private sector involved a combination of the establishment of new private firms and the privatization of existing public firms. What is less frequently mentioned is that the new elite class of private entrepreneurs may not have been entirely "new." Table A1 in the appendix outlines the social origins of Chinese private business owners, clearly showing a strikingly high proportion of former political elites within this new elite class.

As Walder (2003) has pointed out, redistributive economies gave political elites administrative control and material privileges but severely restricted their cash incomes and private wealth. Before the transition, political elites had control of public firms but no property rights to them. Privatization, however, created unprecedented opportunities for them to monetize their redistributive power. This was particularly true in China, where the most common form of privatization was insider privatization (Li and Rozelle 2003). Based on case studies of privatizations in Sichuan province, Jing and McDermott (2015)

found that the top managers of the SOEs privatized played an active role during the transformation in order to realize their organization's value and to accumulate personal wealth. Nevertheless, the specific processes and strategies of privatization varied substantially nationwide. Investigating the opportunities as well as the constraints faced by political elites in the process of privatization is therefore of vital importance for understanding the changes in China's socioeconomic structure.

[Figure 1 about here]

## **LOCAL GOVERNMENTS' INCENTIVES AND PRIVATIZATION STRATEGIES IN CHINA**

Suffering from the soft budget constraint syndrome (SBC),<sup>[2]</sup> ailing SOEs place serious financial burdens on the governments of all centralized economies (Kornai 1986, Kornai, Maskin, and Roland 2003, Maskin and Xu 2001). Privatization is one of the major remedies. However, in sharp contrast to other transition economies, the Chinese economy was privatized predominantly by sub-national governments rather than the central government. This was because the *de facto* ownership of most public firms and the power to make privatization decisions were in the hands of local governments (Li and Rozelle 2003, Garnaut, Song, and Yao 2006, Gan, Guo, and Xu 2010).

Indeed, privatization was not the favored choice of the Chinese leadership at the very beginning of the economy's transition and it was long postponed due to ideological and political resistance. Nevertheless, after initial reforms without explicit changes in

ownership (e. g., the strengthening of managerial incentives through the contract responsibility system) failed to solve the SBC problem, most SOEs were facing considerable financial difficulties and were heavy indebted by the early 1990s (Zeng 2013). As a result, local governments started to sell off loss-making public enterprises even before they received official permission from the above (Kung 1999, Lin and Zhu 2001, Li and Rozelle 2003, Garnaut, Song, and Yao 2006, Gan, Guo, and Xu 2010, Xu 2011). After 1997 the central government launched a policy of “grasping the large and letting go of the small” (*zhuada fangxiao*), retaining ownership of 500 to 1,000 large state firms while allowing smaller firms to be leased or sold. This green light officially relaxed constraints on privatization and provided political incentives for local officials to broaden its scope (Cai 2002a).<sup>[3]</sup>

Nevertheless, like many other socio-economic reforms implemented by the CCP, China’s privatization scheme was not entirely based on a rational design. It was rather a result of political negotiations given the constraints of existing institutions (Xu 2011). Revenue remained an important reason to initiate privatization (Kung 1999, Gan, Guo, and Xu 2010, Li and Rozelle 2003), but one of the key contextual factors that affected local governments’ incentives was the size of public sector in each local economy.

Intuitively, provinces with larger public sectors and suffering more from soft budget constraints would be expected to be more economically motivated to privatize some loss-making SOEs and COEs (collectively-owned enterprises). In reality, though, local governments’ reactions were heavily influenced by political considerations. In particular, public enterprises provided large numbers of jobs and various welfare benefits to their employees (Wu 2002). A major concern which may have deterred local governments

from privatizing public firms could have been the possibility that rapid and massive layoffs would create substantial unemployment and potential social conflict as a result. On the other hand, resistance to restructuring may have been weaker in provinces with booming private sectors, where laid-off workers could be redeployed much more easily. Therefore, to promote economic restructuring while maintaining social stability, priority was usually given to the redeployment of workers who had become redundant as a result of privatization. This suggests that:

*Hypothesis 1: Local governments of regions with ex ante better-developed public sectors tended to implement privatization more conservatively, while local governments of regions with ex ante better-developed private sectors tended to implement privatization more radically.*

On an empirical ground, there are two major factors that can best reflect variations in the conservatism of privatization in a region: its timing (early vs. late) and its extent (full or partial). For instance, some researchers argue that localities with booming private sectors may have privatized SOEs and COEs more rapidly and aggressively (Garnaut et al. 2005). In addition, Gan, Guo, and Xu (2010) observed that local governments of cities with better-developed private sectors tended to opt for full privatizations through, for example, management buy-outs (MBOs) rather than through partial measures such as share issues. This is presumably because a better-developed private sector provided greater potential to absorb large numbers of laid-off workers, reducing pressure for radical privatization in employment, which helped to gather support of local governments for private ownership prior to the onset of privatization. Where the private sector was less well developed the governments needed to be more cautious about preventing rapid and

massive layoffs, which might create mass unemployment and even social unrest (Cai 2002b). They were thus inclined to privatize more slowly and conservatively, retaining a majority stake in their public firms. That suggests the following two hypotheses:

*Hypothesis 1a: Local governments of regions with ex ante better-developed public sectors tended to delay the process of privatization, while local governments of regions with ex ante better-developed private sectors tended to privatize more rapidly.*

*Hypothesis 1b: Local governments of regions with ex ante better-developed public sectors tended to opt for partial privatization, while local governments of regions with ex ante better-developed private sectors tended to opt for full privatization.*

Through the process of privatization, these contextual factors may also have influenced individuals' economic opportunities during the transition and helped to reshape social stratification after the reform. A radical privatization approach implies greater economic benefits for political elites because it provided opportunities for the well-positioned (such as incumbent managers of public firms and high-ranking government officials) to acquire public assets. This is because completely-privatized firms with explicit ownership change were usually sold to insiders through MBOs (Li and Rozelle 2003, Gan 2009, Gan, Guo, and Xu 2010). Hence, we would expect to observe greater elite advantages in provinces with better-developed private sectors, since they were more likely to undertake radical privatization.

*Hypothesis 2: Political elites in regions with ex ante better-developed private sectors and thus implemented radical privatization were more likely to appropriate public assets through privatization.*

Further, this suggests that:

*Hypothesis 2a: Compared to other private entrepreneurs, the elite advantage in owning a privatized firm was larger in regions with ex ante better-developed private sectors.*

*Hypothesis 2b: Compared to other private entrepreneurs, the elite advantage in accumulating personal wealth through privatization was larger in regions with ex ante better-developed private sectors.*

We will now systematically examine the above research hypotheses using empirical data on Chinese private enterprises and entrepreneurs.

## **DATA, VARIABLES, AND DESCRIPTIVE STATISTICS**

### **Data**

China has conducted a biannual (sometimes triennial), nationwide, random sample survey of private enterprises since 1993.<sup>[4]</sup> The survey collects detailed information on both firms and their owners, providing an ideal dataset for studying the impact of privatization on the accumulation of wealth by former political elites during the economic transition.

The survey sample consists mainly of large firms with a small portion of individual and household businesses drawn from all of mainland China's 31 provinces and regions, representing significant regional variations in local institutional settings. This repeated cross-sectional survey is conducted on a two- or three-year cycle. The analyses in this study used the 2002, 2004 and 2006 responses, the only rounds containing detailed

information on firms' restructuring history. Data from the three surveys were pooled to increase the sample size and expand the period analyzed. The pooled sample covered more than 9,000 private enterprises established or privatized during the period from 1985 to 2005, over 20 percent of which were privatized from former state enterprises. That offered ample temporal variation to evaluate the privatization process.

Figure 2 displays the geographic distribution of the *de novo* and the privatized firms in the sample. Interestingly, although both types of firm were more prevalent in wealthier eastern provinces, some provinces (e.g. Jiangsu, Zhejiang) had much larger proportions of privatized firms than others (e.g. Shanghai, Guangdong). Figure 3 shows the timing of the privatizations of the former SOEs and COEs in the sample. Consistent with previous observations, although nationwide and legally-mandated restructuring did not start until the mid-1990s, small-scale regional experiments in privatization were implemented as early as the 1980s to reduce the heavy financial burden of local public enterprises. However, it was only after 1997, when political constraints were completely relaxed, that massive SOE restructuring started to take place. Privatization peaked around 2000, after which it gradually declined before stalling completely in the mid-2000s. <sup>[5]</sup>

[Figures 2 & 3 about Here]

## Variables

### *(1) Individual-level variables*

Scholars commonly use either party membership or cadre status to measure political power in China, but ordinary party members and junior cadres are intrinsically different from the political elites under discussion, or so-called *nomenklatura*, who enjoy many privileges due to their strategic positions in the redistribution system. They are a much more exclusive group who held direct control of public assets or exerted a direct influence on redistribution orders. The study's key independent variable, *elites*, was thus composed of incumbent managers who directly controlled a public firm before the reforms and high-ranking government officials who had direct control of the redistribution. The latter group included former directors of government agencies and institutions or senior cadres with a rank equivalent to the division level (*chuji*) or higher. Individuals who did not belong to either of these two subgroups were considered non-elite.

Private entrepreneurs' political connections were quantified based on their membership in either the National People's Congress or the Chinese People's Political Consultative Conference. Their position in the status hierarchy was assessed in terms of their self-perceived economic status, social status, and political status. The perceptions were in comparison with other social groups ranked on a scale of 1 to 10. Larger numbers indicate higher status.

Other individual-level controls included Chinese Communist Party (CCP) membership (both at the time their firm was established or privatized and at the time of the survey),



years of schooling, gender (male=1), age (both at the time the firm was established or privatized and at the time of the survey), and current personal annual income.

### *(2) Firm-level variables*

The key dependent variable was the logarithm of net assets at the time when a firm was established or privatized. It served as a proxy for the new owner's personal wealth, with a more valuable firm implying a wealthier owner. The initial value rather than the value at the time of the survey was used because it more accurately reflects the wealth accumulated via privatization, ruling out the confounding impacts of subsequent management efficiency and firm performance (Li et al. 2008, Peng 2004).

Firms that were restructured from former SOEs or COEs are referred to as "privatized firms," while the others are called "*de novo* private firms." For privatized firms, the year and method of the privatization were analyzed, with a dummy variable assigned the value 1 representing a management buyout. Other firm-level controls included the year the firm was established and its primary industry (both at the time the firm was established or privatized and at the time of the survey).

### *(3) Provincial-level variables*

Following previous literature, the development of the private sector was measured by the share of a province's industrial output contributed by SOEs, with larger values assumed to indicate a less well-developed private sector in a province. Other provincial-level controls include a province's fiscal revenue and expenditures, as well as the logarithm of its GDP per capita and its lagged form. These provincial-level economic data were drawn from the publications of China's National Bureau of Statistics and merged with the firm-

level data by year of establishment or restructuring. Province dummies were incorporated in the models where appropriate.

To capture the potential period effect due to a critical change in the political constraints on privatization, a dummy variable was created indicating the 15<sup>th</sup> CCP Congress in 1997, which officially granted local governments the authority to privatize local public firms and to decide the timing and extent of privatization independently (Cai 2002a).

### **Descriptive Statistics**

We construct a typology of firms comprising four groups based on the origins of a firm and its owners: *de novo* private firms owned by elites and non-elites, and privatized firms owned by elites and non-elites. Figure 4 shows the distribution of firms in terms of these categories in the three waves of the survey. Overall, more than half of the firms in the sample were *de novo* private firms established by individuals who previously had no detected political privileges. But it is notable that about one-third of the firms (either private or privatized) were owned by former political elites, although they only accounted for a very small portion of the general population. Some of those elites left their political posts and entered the private sector to start their own businesses (termed *xiahai* or “jumping into the sea”) (Wu 2010), but others took advantage of the privatization process and became the owners of formerly public firms. Over time, the proportion of privatized firms declined slightly as the privatization process went down, but they became increasingly owned by elites. In the 2006 survey, over 60 percent of the privatized firms were owned by former political elites.

Table 1 separately summarizes the firm and owner characteristics of the four groups. It shows a distinct hierarchy among those private entrepreneurs. There is a consistent pattern by which those who took over privatized firms were generally better-off than those who started from scratch, while elites always outperformed non-elites, irrespective of the firm type. The most advantaged group, unsurprisingly, were former political elites who now owned privatized firms. They accumulated massive personal wealth, exhibit higher perceived economic, social and political status, and are more likely to be members of the CCP, the National People's Congress or the Chinese People's Political Consultative Committee.

[Figure 4 about Here]

[Table 1 about Here]

## **RESULTS**

### **Regional Variations in Privatization**

The first step to understanding the opportunities and constraints faced by political elites during China's economic transition is to investigate the specific local contexts in which privatization was undertaken. As many studies have shown, local SOEs and COEs are *de facto* owned by governments, which were granted considerable autonomy in making their own decisions on privatization (Li and Rozelle 2003, Garnaut, Song, and Yao 2006, Gan, Guo, and Xu 2010). In this regard, local governments' incentives and strategies for privatization arguably defined the extent to which elites were able to take advantage of

their political positions to acquire state property. In this section, we explicitly investigate how these incentives were shaped by local economic conditions and the political considerations of government officials, which consequently affected when and how public firms were privatized.

We expect that, when the share of output contributed by SOEs was large, the local government was likely to delay privatization and be more reluctant to choose full-scale privatization, as this would typically result in substantial layoffs and possible social conflict. A preliminary description of the relationship between SOE output share and the timing and extent of privatization, as illustrated in Figure 5, appears to support this conjecture. Provinces with *ex ante* more developed private sectors such as Jiangsu and Zhejiang were the pioneers that undertook privatization more rapidly and radically.

[Figure 5 about Here]

Nevertheless, that two-way association can be affected by many confounding factors. To rigorously examine Hypotheses 1a and 1b, we first employed OLS models to predict the impacts of the SOEs' share of provincial industrial output on the timing of privatization. The results are presented in Table 2. We then employed binary logit models to predict the probability of carrying out MBOs (full-scale privatization) among the privatized firms. <sup>[6]</sup> Table 3 shows those estimates. For both Tables 2 and 3, Model 1 includes only the SOEs' share of industrial output. The provincial economic controls such as fiscal balance and GDP per capita are added in Model 2. Since the political constraints on privatization were officially relaxed by the central government after the 15<sup>th</sup> CCP Congress in 1997, we would expect a substantial increase in local governments'

incentives for economic reforms. The regression analyses are therefore performed separately in Models 3 and 4 for public firms that were privatized before and after 1997. The survey year dummies and industry dummies were included as controls in all models.

[Table 2 about Here]

[Table 3 about Here]

The model estimates in Table 2 show that greater importance of publicly-owned firms in the economy was positively associated with a significant delay in the timing of privatization, which confirms Hypothesis 1a. However, that relationship appeared only after privatization gained its legitimacy in 1997, when governments of provinces with more developed private sectors became eager to start privatizing local public firms to meet the restructuring timetables set by the central government (Zeng 2013). Progress was relatively slower in provinces with less-developed private sectors, probably due at least in part to worker resistance. In the post-1997 period, holding other things constant, a 10-percentage point increase in the output share of SOEs predicted privatization delayed by roughly 3 months (0.23 years) on average.

In terms of the means of privatization, Table 3 shows that a larger public sector in a province predicted a significantly reduced tendency for local governments to undertake full privatization (i.e. MBOs). That was presumably due to a fear of large-scale layoffs and consequent social unrest. However, that negative association between public sector development and MBOs was weakened to some extent (though it remained statistically significant) after the 15<sup>th</sup> CCP Congress in 1997, when privatization came to be regarded as an irreversible trend. Holding other things constant, a 10-percentage point increase in

the SOEs' output share decreased the probability of choosing insider privatization by 9.2% ( $10 \times (1 - e^{-2.551})$ ) before 1997, and by 5.4% ( $10 \times (1 - e^{-0.781})$ ) after 1997. Overall, these findings are consistent with previous narratives on the transition process in China and provide direct evidence to support Hypothesis 1b.

### **Economic Opportunities for Political Elites**

Given the substantial provincial variation in privatization strategies, the next objective is to examine the extent to which political elites' advantages were fueled or restricted by the local context. Again, SOEs' share of industrial output was used as the key macro-level indicator, as it has been demonstrated to be an important factor affecting local governments' decisions on the timing and extent of privatization. The latter form of influence is of particular importance because the government no longer holds a significant stake after full privatization, which may provide better opportunities for political elites to acquire public assets. Accordingly, one would expect that where local governments were more positively inclined toward full privatization, political elites were less constrained from owning a privatized firm and consequently were more likely to accumulate greater personal wealth.

We examined the first speculation by predicting the probability of owning a privatized firm. Logit estimates are reported in Table 4. Model 1 shows that political elites were on average nearly 3 times more likely ( $e^{0.839} - 1$ ) than others to be the owner of a privatized firm. Also, being in a province with a more dominant public sector was generally negatively associated with privatized firm ownership. When the interaction term between the elite dummy and SOE output share was added in Model 2, the coefficients show that

political elites' chances of owning a privatized firm were significantly lower in provinces with an underdeveloped private sector. The analysis was again repeated separately for the periods before and after 1997, and the results were quite similar, except that the net advantage of being an elite tended to be larger and the penalty associated with a strong public sector tended to be smaller in the latter period. In other words, despite regional variations, political elites in China were less restricted in owning privatized firms after the central government officially authorized economic restructuring. Hypothesis 2a is thus supported.

[Table 4 about Here]

Not surprisingly, this privatization process has created unprecedented economic opportunities for political elites in transforming public assets into personal wealth. The value of the firms acquired by Chinese private entrepreneurs at the time of establishment or restructuring was taken as an indicator of their newfound wealth. Table 5 presents the coefficients of OLS regressions predicting the firms' initial assets. Model 1 shows that, holding all else constant, privatized firms usually had considerably more initial assets than *de novo* private firms, as would, of course, be expected. Firms owned by former political elites were also more valuable than those owned by other entrepreneurs. In addition, provinces with a larger SOE share of industrial output tended to have relatively smaller private firms on average. Model 2 includes a term representing an interaction between the privatized firm dummy and the elite dummy. Its coefficient is not significant, suggesting that elite-owned privatized firms enjoyed no additional advantage on average after controlling for individual and provincial characteristics. We then further interacted the contextual variable indicating local government incentives for radical privatization

(i.e. SOEs' share of industrial output) with the privatized dummy, the elite dummy, as well as their interaction term in Models 3. After controlling for the regional variations in the net advantages of privatized firms (i.e. the interaction term between the privatized firm dummy and the SOEs' share of provincial industrial output) and political elites (i.e. the interaction between the elite dummy and SOEs' share of provincial industrial output), Model 3 provides evidence that the elites' advantage in terms of firm value varied systematically with the *ex-ante* development of a province's local private sector. The coefficient of the two-way interaction between the privatized firm dummy and the elite dummy in Model 3 becomes positive and significant, suggesting a net advantage in wealth for a group of elites who took over privatized firms. Furthermore, the three-way interaction term's coefficient is negative and significant, indicating that the net advantage enjoyed by that group of elites varied with local economic circumstances. Specifically, elites enjoyed a more substantial advantage where the local private sector was better-developed, presumably because local governments were more likely to choose full privatization strategies such as MBOs, thus offering greater opportunities for elite insiders to acquire public assets. These findings lend empirical support to Hypothesis 2b.

Interestingly, the net advantage enjoyed by former political elites who took over privatized firms was statistically significant only in the post-1997 period. This could be due to the fact that privatization before the 15<sup>th</sup> CCP Congress was implemented by some local governments on an experimental basis and usually limited to a small to moderate scale. From a different perspective, this finding also echoes the argument that political elites' economic opportunities during the transition were heavily constrained by contextual circumstances.



[Table 5 about Here]

Figure 6 illustrates the three-way interaction in Model 3 of Table 5. It shows that the SOE share of provincial industrial output was positively correlated with political elites' advantage among *de novo* private firms but negatively correlated with their advantage among privatized firms. Net of the other factors, elites benefitted most from buying out public firms in provinces where the SOEs' share of industrial output was less than 47 percent. Meanwhile, local governments in provinces where the SOEs' share of industrial output was greater than 47 percent were less incentivized to fully privatize. Thus, opportunity-seeking elites there were sometimes forced to “jump into the sea” and launch their own businesses.

[Figure 6 about Here]

We also replicated the analysis using the logarithm of initial firm equity as the indicator of the value of assets that are actually “owned” by private entrepreneurs. The patterns remained robust (see Table A2 in the appendix).

### **Auxiliary Analysis: New Elites or Old Elites?**

China's economic transition was accompanied by a rapid expansion of the private sector and the emergence of a new managerial class, including private business owners (Glassman 1991, Walder 2011). However, based on an in-depth study, Tsai (2005) concluded that no class formation occurred among Chinese private entrepreneurs, primarily due to their significant diversity in terms of both occupational and political background. This study has shown that this new elite class included a considerable

proportion of “old elites” who successfully converted their political power into personal wealth through privatization. They tended to differ from other private entrepreneurs in terms of the amount of their wealth and how they acquired it. Moreover, their political backgrounds also differed. In China, government ties usually bring access to information, protection, resources and other benefits, and thus are widely considered to be desirable among private business owners (Park and Luo 2001, Arnoldi and Villadsen 2015, Li et al. 2008). Studies have suggested that Chinese private entrepreneurs actively participate in politics seeking economic benefits such as favorable regulatory and tax conditions, and easier access to bank loans (Li, Meng, and Zhang 2006). Membership in political institutions such as the NPC or CPPCC is widely regarded as an important way of establishing this type of connection with government authorities in China.

Table 6 reports the coefficients of logit models predicting private entrepreneurs’ current membership in the NPC and CPPCC. The baseline models (1 and 3) include a privatized firm dummy and an elite dummy. Models 2 and 4 add their interaction terms. Apart from the macro-level controls used in previous models, individual characteristics such as party membership, years of schooling, gender, and age are also controlled for in all models. Results show significant net advantages enjoyed by former political elites in obtaining membership in those political institutions. They were 1.3 ( $e^{0.255}$ ) times as likely to be an NPC member, and 1.2 ( $e^{0.200}$ ) times as likely to be a CPPCC member. In particular, the positive and significant interaction term in Model 2 suggests that former political elites who took over privatized firms were linked most closely with government authorities, measured by their NPC membership.

[Table 6 about Here]

In addition to political capital, this elite group also ranks high in the social hierarchy in post-reform China. We examined entrepreneurs' status in terms of their self-perceived economic status, social status, and political status. A four-group typology is constructed based on the origin of their firms (*de novo* or privatized) and their background (elite vs. non-elite). Estimations based on ordinal logit models are presented in Table 7. The baseline models include the four types along with controls. Not surprisingly, elites who owned privatized firms considered themselves the most privileged group. They rated themselves higher on all three status dimensions. However, when their current firm assets and their personal annual incomes are included, their advantage in economic status is fully explained (or mediated), and their advantages in social and political status are reduced to some extent. In the full models, which also include the owners' political capital (represented by NPC or CPPCC membership), their higher perceived social status is completely explained. The coefficient for political status is smaller but still statistically significant. To put it more simply, the exceptionally high status of political elites who took over privatized firms can be largely attributed to their greater personal wealth and their government connections. The "old elites" have exceptionally high status compared to other private entrepreneurs in the post-reform era.

[Table 7 about Here]

## **CONCLUSIONS AND DISCUSSION**

Social scientists have intensively investigated the social and political consequences of economic transition in the post-socialist era. Although the scholarly debate has largely

waned over the past decade, many critical issues are yet to be resolved. This study revisited the question of the economic opportunities available to former political elites, with an explicit focus on the privatization process in China.

China's massive yet silent privatization of public firms since the mid-1990s has been one of the key institutional changes that has fundamentally shifted the way political elites are rewarded. Taking advantage of firm-level data from a nationwide survey of Chinese private enterprises and their owners, we have explicitly shown how political elites in China converted their control power into personal wealth and how that process left them ahead of other private entrepreneurs in post-reform society. By focusing on the transfer of control and ownership structures in the corporate sector and by incorporating regional variations in the analytical framework, we distance ourselves from previous studies that argue a straightforward relationship between the economic mode and stratification order. The empirical results largely support our research hypotheses and show that varying opportunity structures could affect political elites' socioeconomic outcomes during the market transition.

Specifically, we find that a better-developed private sector at the onset of the privatization process greatly increased the probability of aggressive and full-scale privatization (such as through MBOs). Those contextual differences considerably influenced the economic opportunities available to political elites. While former political elites performed quite well in the private sector in general, their specific advantages varied depending on the local context. Elites who relinquished public office and established their own firms ("*xiaohai*") (Wu 2010) enjoyed the greatest net advantage in terms of firm assets in provinces where the public sector played a dominant role in the

local economy. That was probably due to a less competitive market and their own selectivity as later entrants (Wu and Xie 2003). However, elites enjoyed the greatest net advantage by acquiring privatized firms in provinces with *ex ante* better-developed private sectors because local governments there were more inclined to insider privatization, often through MBOs. These findings suggest that former elites actively pursued new opportunities either by acquiring restructured firms or by establishing their own businesses in the growing private sector.

Moreover, we also discovered some interesting temporal variations in the relationship between the size of the private sector and the timing and extent of privatization before and after the 15<sup>th</sup> CCP Congress in 1997. Before privatization gained political legitimacy, some local governments, especially those with a relatively mature private sector which might absorb laid-off workers, initiated some experimental reforms by selling loss-making public firms to their incumbent managers. However, these experiments were often on a relatively small scale and insider elites were still constrained in accessing valuable public assets during that period. Once privatization had been officially endorsed and supported by the central government and became a political target to be met, elite insiders were able to fully realize the economic benefits attached to their strategic positions in the redistribution system by acquiring the most potentially valuable public firms. Again, it was those provinces with larger private sectors that privatized their publicly-owned enterprises more rapidly and aggressively. Naturally, elite advantages were also the largest in those regions.

An auxiliary analysis of social stratification among private entrepreneurs further revealed that former political elites who took over privatized firms attained positions at

the top of the hierarchy of China's new managerial class. They not only received considerable economic benefits through insider privatization but also maintained their political connections even after entering the private sector, which potentially contributed to their higher social and political status compared to other private business owners. These results also lend strong support to Tsai's (2005, 2007) argument that, despite similarities in their economic activities, private entrepreneurs in China cannot be viewed as a single class, since they differ substantially in social background and political identity.

Despite being only a small fraction of the general population, former political elites now own up to one-third of private firms in post-reform China. Many of their firms were in fact privatized from former SOEs and COEs with much higher values than *de novo* private firms. These "old elites" now substantially overlap with the "new elites," as they have successfully converted their political power into economic benefits and transformed public assets into personal wealth through the privatization process.

## NOTES

- [1] It was a common practice for scholars to use party membership or cadre status to measure political power in previous studies. However, there were more than 50 million party members across the nation in the early 1990s, only a small fraction of whom were advantageously placed. Therefore, the definition of political elites should be determined by their positions in the redistribution system, rather than their party membership.
- [2] The concept was originally formulated by Kornai (1986) to describe situations where a funding source (e.g., a bank or government) fails to keep an enterprise to a fixed budget.
- [3] Usually euphemistically referred to as “restructuring (*gaizhi*).”
- [4] This survey was implemented by the CCP’s United Front Work Department in collaboration with the National Federation of Industry and Commerce and the Chinese Society for Research on the Private Economy.
- [5] Another distinctive feature of Figure 2 is that compared to SOEs, more urban and rural COEs were privatized at an earlier stage. This may be due to the fact that local governments held greater decision-making power over local COEs and deliberately chose them to experiment with first by selling them to private owners. Such local COEs were usually smaller scale and could thus be more easily privatized with less economic and political risk than larger SOEs.

[6] Although an MBO was not the only way for insiders to acquire public assets, it is a signal of relatively weak policy restrictions on embezzlement. It creates favorable institutional circumstances for elite insiders to acquire public assets and transform their control rights into ownership rights (Walder 2011).



## REFERENCES

- Arnoldi, Jakob, and Anders R. Villadsen. 2015. "Political Ties of Listed Chinese Companies, Performance Effects, and Moderating Institutional Factors." *Management and Organization Review* no. 11 (2):217-236. doi: 10.1017/mor.2015.14.
- Bian, Yanjie. 2002. "Chinese Social Stratification and Social Mobility." *Annual Review of Sociology* no. 28 (1):91-116.
- Bian, Yanjie, and John R. Logan. 1996. "Market Transition and the Persistence of Power: the Changing Stratification System in Urban China." *American Sociological Review* no. 61 (5):739-758.
- Bian, Yanjie, and Zhanxin Zhang. 2002. "Marketization and Income Distribution in Urban China, 1988 and 1995." *Research in Social Stratification and Mobility* no. 19:377-415.
- Cai, Yongshun. 2002a. "Relaxing the Constraints from above: Politics of Privatising Public Enterprises in China." *Asian Journal of Political Science* no. 10 (2):94-121. doi: 10.1080/02185370208434212.
- Cai, Yongshun. 2002b. "The Resistance of Chinese Laid-off Workers in the Reform Period." *The China Quarterly* (170):327-344.
- Cao, Yang, and Victor G. Nee. 2000. "Comment: Controversies and Evidence in the Market Transition Debate." *American Journal of Sociology* no. 105 (4):pp. 1175-1189.
- Ding, Xueliang. 2000. "Informal Privatization through Internationalization: The Rise of Nomenklatura Capitalism in China's Offshore Businesses." *British Journal of Political Science* no. 30 (1):121-146.
- Eyal, Gil, Iván Szélenyi, and Eleanor R. Townsley. 1998. *Making Capitalism without Capitalists: Class Formation and Elite Struggles in Post-communist Central Europe*. London: Verso.
- Gan, Jie. 2009. "Privatization in China: Experiences and Lessons." In *China's Emerging Financial Markets*, edited by James R. Barth, John A. Tatom and Glenn Yago, 581-592. Springer US.

- Gan, Jie, Yan Guo, and Chenggang Xu. 2010. Privatization and the Change of Control Rights: The Case of China. Peking University of School of Economics Working paper E-2010-06-006.
- Garnaut, Ross, Ligang Song, Stoyan Tenev, and Yang Yao. 2005. "China's Ownership Transformation: Process." *Outcomes, Prospects (Washington, DC: International Finance Corporation and World Bank, 2005)*.
- Garnaut, Ross, Ligang Song, and Yang Yao. 2006. "Impact and Significance of State-Owned Enterprise Restructuring in China." *The China Journal* (55):35-63. doi: 10.2307/20066119.
- Gerber, Theodore P. 2002. "Structural Change and Post-socialist Stratification: Labor Market Transitions in Contemporary Russia." *American Sociological Review* no. 67 (5):629-659.
- Gerber, Theodore P. 2000. "Membership Benefits or Selection Effects? Why Former Communist Party Members Do Better in Post-Soviet Russia." *Social Science Research* no. 29 (1):25-50. doi: 10.1006/ssre.1999.0651.
- Glassman, Ronald M. 1991. *China in Transition : Communism, Capitalism, and Democracy*. Edited by Ronald M. Glassman. New York: Praeger.
- Jing, Runtian, and E. Patrick McDermott. 2015. "Transformation of State-owned Enterprises in China: A Strategic Action Model." *Management and Organization Review* no. 9 (1):53-86. doi: 10.1017/S174087760000317X.
- Kornai, János. 1986. "The Soft Budget Constraint." *Kyklos* no. 39 (1):3.
- Kornai, Janos, Eric Maskin, and Gerard Roland. 2003. "Understanding the Soft Budget Constraint." *Journal of Economic Literature* no. 41 (4):1095-1136.
- Kung, James Kai-Sing. 1999. "The Evolution of Property Rights in Village Enterprises: The Case of Wuxi County." In *Property Rights and Economic Reform in China*, edited by Jean C. Oi and Andrew. G. Walder, 95-122. Stanford: Stanford University Press.
- Li, Hongbin, Lingsheng Meng, Qian Wang, and Li-An Zhou. 2008. "Political Connections, Financing and Firm Performance: Evidence from Chinese Private Firms." *Journal of Development Economics* no. 87 (2):283-299.

- Li, Hongbin, Lingsheng Meng, and Junsen Zhang. 2006. "Why do Entrepreneurs Enter Politics? Evidence from China." *Economic Inquiry* no. 44 (3):559-578.
- Li, Hongbin, and Scott Rozelle. 2003. "Privatizing Rural China: Insider Privatization, Innovative Contracts and the Performance of Township Enterprises." *The China Quarterly* no. 176:981-1005.
- Lin, Yi-min, and Tian Zhu. 2001. "Ownership Restructuring in Chinese State Industry: An Analysis of Evidence on Initial Organizational Changes." *The China Quarterly* no. 166:305-341.
- Maskin, Eric, and Chenggang Xu. 2001. "Soft Budget Constraint Theories: From Centralization to the Market." *Economics of Transition* no. 9 (1):1-27.
- Nee, Victor. 1989. "A Theory of Market Transition: From Redistribution to Markets in State Socialism." *American Sociological Review* no. 54 (5):pp. 663-681.
- Nee, Victor, and Yang Cao. 2005. "Market Transition and the Firm: Institutional Change and Income Inequality in Urban China." *Management and Organization Review* no. 1 (1):23-56. doi: 10.1111/j.1740-8784.2004.00003.x.
- Parish, William L., and Ethan Michelson. 1996. "Politics and Markets: Dual Transformations." *American Journal of Sociology* no. 101 (4):1042-1059. doi: 10.1086/230788.
- Park, Seung Ho, and Yadong Luo. 2001. "Guanxi and Organizational Dynamics: Organizational Networking in Chinese Firms." *Strategic Management Journal* no. 22 (5):455-477.
- Peng, Mike W. 2004. "Outside Directors and Firm Performance During Institutional Transitions." *Strategic Management Journal* no. 25 (5):453-471.
- Rona-Tas, Akos. 1994. "The First Shall Be Last? Entrepreneurship and Communist Cadres in the Transition from Socialism." *American Journal of Sociology* no. 100 (1):40-69.
- Staniszki, Jadwiga. 1991. *The Dynamics of the Breakthrough in Eastern Europe: The Polish Experience*. Berkeley: University of California Press.
- Szelényi, Iván. 1978. "Social Inequalities in State Socialist Redistributive Economies." *International Journal of Comparative Sociology* no. 19 (1-2):63-87.

- Tsai, Kellee Sing. 2005. "Capitalists Without a Class: Political Diversity Among Private Entrepreneurs in China." *Comparative Political Studies* no. 38:1130-1158. doi: <https://doi.org/10.1177/0010414005277021>.
- Tsai, Kellee Sing. 2007. *Capitalism without Democracy : The Private Sector in Contemporary China*. Edited by Kellee Sing Tsai. Ithaca: Cornell University Press.
- Walder, Andrew G. 1996. "Markets and Inequality in Transitional Economies: Toward Testable Theories." *American Journal of Sociology* no. 101 (4):pp. 1060-1073.
- Walder, Andrew G. 2002. "Markets and Income Inequality in Rural China: Political Advantage in an Expanding Economy." *American Sociological Review* no. 67 (2):pp. 231-253.
- Walder, Andrew G. 2003. "Elite Opportunity in Transitional Economies." *American Sociological Review* no. 68 (6):pp. 899-916.
- Walder, Andrew G. 2011. "From Control to Ownership: China's Managerial Revolution." *Management and Organization Review* no. 7 (1):19-38. doi: 10.1111/j.1740-8784.2009.00171.x.
- Wu, Xiaogang. 2002. "Work Units and Income Inequality: The Effect of Market Transition in Urban China." *Social Forces* no. 80 (3):1069-1099.
- Wu, Xiaogang. 2006. "Communist Cadres and Market Opportunities: Entry into Self-Employment in China, 1978-1996." *Social Forces* no. 85 (1):389-411.
- Wu, Xiaogang. 2010. "Voluntary and Involuntary Job Mobility and Earnings Inequality in Urban China, 1993–2000." *Social Science Research* no. 39 (3):382-395. doi: <http://dx.doi.org/10.1016/j.ssresearch.2009.11.003>.
- Wu, Xiaogang, and Yu Xie. 2003. "Does the Market Pay off? Earnings Returns to Education in Urban China." *American Sociological Review* no. 68 (3):pp. 425-442.
- Xie, Yu, and Emily Hannum. 1996. "Regional Variation in Earnings Inequality in Reform-Era Urban China." *American Journal of Sociology* no. 101 (4):pp. 950-992.
- Xu, Chenggang. 2011. "The Fundamental Institutions of China's Reforms and Development." *Journal of Economic Literature* no. 49 (4):1076-1151.

Zeng, Jin. 2013. *State-led Privatization in China : The Politics of Economic Reform*.

Edited by Jin Zeng. Abingdon, Oxon: Routledge.

Zhou, Xueguang. 2000a. "Economic Transformation and Income Inequality in Urban China: Evidence from Panel Data." *American Journal of Sociology* no. 105 (4):pp. 1135-1174.

Zhou, Xueguang. 2000b. "Reply: Beyond the Debate and Toward Substantive Institutional Analysis." *American Journal of Sociology* no. 105 (4):pp. 1190-1195.

## TABLES AND FIGURES

**Table 1. Descriptive Statistics for Selected Variables, by Type of Private Entrepreneurs**

|  | <i>de novo</i> Private Firm |                  |          | Privatized Firm  |                  |          |
|--|-----------------------------|------------------|----------|------------------|------------------|----------|
|  | Nonelite                    | Elite            | T-value  | Nonelite         | Elite            | T-value  |
| <b><i>Personal Wealth</i></b>            |                             |                  |          |                  |                  |          |
| Ln(assets) (before)                      | 4.245<br>(1.603)            | 4.673<br>(1.698) | 8.523*** | 4.925<br>(1.707) | 5.223<br>(1.557) | 3.685*** |
| Ln(assets) (current)                     | 5.191<br>(1.715)            | 5.653<br>(1.754) | 8.419*** | 5.736<br>(1.740) | 6.063<br>(1.634) | 3.837*** |
| Ln(income)                               | 1.854<br>(1.395)            | 2.037<br>(1.377) | 4.647*** | 1.840<br>(1.434) | 1.980<br>(1.350) | 2.146*   |
| <b><i>Individual Characteristics</i></b> |                             |                  |          |                  |                  |          |
| Party member (before)                    | 17.3%                       | 39.9%            | 19.76*** | 38.5%            | 65.4%            | 12.38*** |
| Party member (current)                   | 22.5%                       | 44.4%            | 17.94*** | 44.2%            | 69.7%            | 11.78*** |
| Years of schooling                       | 12.97<br>(2.729)            | 13.73<br>(2.568) | 10.46*** | 13.30<br>(2.691) | 13.69<br>(2.602) | 3.348*** |
| Male                                     | 84.2%                       | 90.1%            | 6.297*** | 89.1%            | 93.4%            | 3.446*** |
| Age (before)                             | 35.47<br>(8.017)            | 38.67<br>(7.744) | 14.89*** | 38.00<br>(8.632) | 42.13<br>(7.776) | 11.29*** |
| Age (current)                            | 42.32<br>(8.095)            | 45.62<br>(7.646) | 15.27*** | 44.07<br>(8.000) | 47.61<br>(7.281) | 10.42*** |
| <b><i>Political Connections</i></b>      |                             |                  |          |                  |                  |          |
| NPC member                               | 13.20%                      | 18.70%           | 5.778*** | 23.48%           | 36.81%           | 6.546*** |
| CPPCC member                             | 29.28%                      | 34.93%           | 4.535*** | 26.52%           | 29.70%           | 1.585    |
| <b><i>Perceived Status</i></b>           |                             |                  |          |                  |                  |          |
| Economic status (1-10)                   | 5.869<br>(1.805)            | 6.072<br>(1.748) | 4.165*** | 6.049<br>(1.866) | 6.235<br>(1.800) | 2.262*   |
| Social status (1-10)                     | 6.001<br>(1.983)            | 6.209<br>(1.908) | 3.880*** | 6.295<br>(2.002) | 6.574<br>(1.969) | 3.117**  |
| Political status (1-10)                  | 5.216<br>(2.329)            | 5.614<br>(2.199) | 6.342*** | 5.648<br>(2.240) | 6.122<br>(2.146) | 4.801*** |
| <i>N</i>                                 | 5228                        | 1861             |          | 920              | 1111             |          |

Note: Standard deviations in parentheses; \*\*\*  $p < 0.001$ , \*\*  $p < 0.01$ , \*  $p < 0.05$ . “Before” indicates status when the firm was established; “current” indicates status when the survey was conducted. “Elites” include former directors of public enterprises, former tenants and contractors of public enterprises, and former directors of government agencies and institutions.

**Table 2. OLS Models Predicting the Timing of Privatization**

|  | <b>DV: Year of Privatization</b> |                      |                      |                      |
|--|----------------------------------|----------------------|----------------------|----------------------|
|  | <b>All</b>                       | <b>Before 1997</b>   | <b>After 1997</b>    |                      |
|  | (1)                              | (2)                  | (3)                  | (4)                  |
| <b>Provincial government incentive</b> |                                  |                      |                      |                      |
| SOEs' Share of industrial output       | 1.228**<br>(0.403)               | 2.192***<br>(0.215)  | 0.450<br>(0.510)     | 2.324***<br>(0.173)  |
| <b>Provincial economic controls</b>    |                                  |                      |                      |                      |
| Fiscal revenue                         |                                  | -0.025***            | -0.030***            | -0.013***            |
| Fiscal expenditure                     |                                  | (0.001)              | (0.002)              | (0.001)              |
| Ln(PGDP)                               |                                  | 0.024***<br>(0.000)  | 0.027***<br>(0.002)  | 0.014***<br>(0.000)  |
| Lagged Ln(PGDP)                        |                                  | -4.168***<br>(0.646) | 5.729***<br>(1.011)  | 12.555***<br>(1.074) |
|  |                                  | 6.632***             | -3.573***            | -11.729***           |
| <b>Other controls</b>                  |                                  |                      |                      |                      |
| Survey year dummies                    | YES                              | YES                  | YES                  | YES                  |
| Industry dummies (before)              | YES                              | YES                  | YES                  | YES                  |
| <b>Constant</b>                        | 1995.5***<br>(0.429)             | 1973.2***<br>(0.605) | 1973.7***<br>(1.081) | 1987.4***<br>(0.650) |
| <i>N</i>                               | 1904                             | 1904                 | 501                  | 1403                 |
| <i>R</i> <sup>2</sup>                  | 0.138                            | 0.832                | 0.735                | 0.713                |

Notes: Standard deviations in parentheses; \*\*\*  $p < 0.001$ , \*\*  $p < 0.01$ , \*  $p < 0.05$ . "Before" indicates status when the firm was established.

**Table 3. Logit Models Predicting the Extent of Privatization**

|  | <b>DV: Whether an MBO</b> |                      |                      |                    |
|--|---------------------------|----------------------|----------------------|--------------------|
|  | <b>All</b>                | <b>Before 1997</b>   | <b>After 1997</b>    |                    |
|  | (1)                       | (2)                  | (3)                  | (4)                |
| <b>Provincial government incentive</b> |                           |                      |                      |                    |
| Share of industrial output by SOEs     | -1.108***<br>(0.234)      | -1.186***<br>(0.285) | -2.551***<br>(0.716) | -0.781*<br>(0.329) |
| <b>Provincial economic controls</b>    |                           |                      |                      |                    |
| Fiscal revenue                         |                           | 0.000<br>(0.001)     | -0.004<br>(0.003)    | 0.002<br>(0.001)   |
| Fiscal expenditure                     |                           | -0.000<br>(0.001)    | 0.002<br>(0.002)     | -0.001<br>(0.001)  |
| Ln(PGDP)                               |                           | -3.730***<br>(0.867) | -2.398+<br>(1.403)   | -5.153*<br>(2.081) |
| Lagged Ln(PGDP)                        |                           | 4.029***<br>(0.850)  | 2.617+<br>(1.419)    | 5.302*<br>(2.106)  |
| <b>Other controls</b>                  |                           |                      |                      |                    |
| Survey year dummies                    | YES                       | YES                  | YES                  | YES                |
| Industry dummies (before)              | YES                       | YES                  | YES                  | YES                |
| <b>Constant</b>                        | -0.098<br>(0.268)         | -2.060*<br>(0.817)   | -0.733<br>(1.501)    | -0.889<br>(1.254)  |
| <i>N</i>                               | 1899                      | 1899                 | 493                  | 1399               |
| <i>Pseudo R</i> <sup>2</sup>           | 0.042                     | 0.062                | 0.054                | 0.074              |

Notes: Standard deviations in parentheses; \*\*\* p<0.001, \*\* p<0.01, \* p<0.05, + p<0.1. “Before” indicates status when the firm was established. Some observations were dropped from the modeling because certain industry dummy variables predicted failure perfectly.



**Table 4. Logit Models Predicting the Probability of Owning a Privatized Firm**

|   | <b>DV: Owner of a Privatized Firm</b> |                      |                     |                      |
|---|---------------------------------------|----------------------|---------------------|----------------------|
|   | <b>All</b>                            | <b>Before 1997</b>   | <b>After 1997</b>   |                      |
|   | (1)                                   | (2)                  | (3)                 | (4)                  |
| <b>Elite</b>                              | 0.839***<br>(0.062)                   | 1.343***<br>(0.145)  | 1.327***<br>(0.269) | 1.501***<br>(0.179)  |
| <b>Share of industrial output by SOEs</b> | -0.525**<br>(0.179)                   | -0.001<br>(0.225)    | -0.637<br>(0.465)   | -0.007<br>(0.269)    |
| <b>Elite*Share</b>                        |                                       | -1.127***<br>(0.292) | -1.390*<br>(0.625)  | -1.291***<br>(0.342) |
| <b>Individual characteristics</b>         |                                       |                      |                     |                      |
| Party member (before)                     | 0.937***<br>(0.063)                   | 0.932***<br>(0.063)  | 0.727***<br>(0.118) | 1.012***<br>(0.075)  |
| Years of education                        | 0.049***<br>(0.012)                   | 0.050***<br>(0.012)  | 0.076***<br>(0.020) | 0.034*<br>(0.015)    |
| Male                                      | 0.206*<br>(0.099)                     | 0.213*<br>(0.099)    | 0.226<br>(0.199)    | 0.206<br>(0.116)     |
| Age (before)                              | 0.027***<br>(0.004)                   | 0.027***<br>(0.004)  | 0.001<br>(0.008)    | 0.035***<br>(0.005)  |
| <b>Provincial economic controls</b>       |                                       |                      |                     |                      |
| Fiscal revenue                            | -0.001**<br>(0.000)                   | -0.001**<br>(0.000)  | -0.001<br>(0.001)   | -0.001<br>(0.001)    |
| Fiscal expenditure                        | 0.001**<br>(0.000)                    | 0.001**<br>(0.000)   | -0.000<br>(0.001)   | 0.000<br>(0.001)     |
| Ln(PGDP)                                  | -3.050***<br>(0.494)                  | -3.027***<br>(0.496) | -0.612<br>(0.753)   | -1.359<br>(1.231)    |
| Lagged Ln(PGDP)                           | 3.217***<br>(0.485)                   | 3.197***<br>(0.487)  | 0.611<br>(0.760)    | 1.505<br>(1.248)     |
| <b>Other controls</b>                     |                                       |                      |                     |                      |
| Survey year dummies                       | YES                                   | YES                  | YES                 | YES                  |
| Industry dummies (before)                 | YES                                   | YES                  | YES                 | YES                  |
| <b>Constant</b>                           | -4.333***<br>(0.499)                  | -4.604***<br>(0.504) | -2.381**<br>(0.851) | -4.625***<br>(0.795) |
| <i>N</i>                                  | 8142                                  | 8142                 | 2980                | 5136                 |
| <i>Pseudo R</i> <sup>2</sup>              | 0.152                                 | 0.154                | 0.093               | 0.178                |

Notes: Standard deviations in parentheses; \*\*\* p < 0.001, \*\* p < 0.01, \* p < 0.05. “Before” indicates status when the firm was established. “Elites” include former directors of public enterprises, former tenants and contractors of public enterprises, and former directors of government agencies and institutions. Some observations were dropped from the model because certain industry dummy variables predicted failure perfectly.

**Table 5. OLS Models Predicting the Economic Opportunities for Political Elites**

|   | <b>DV: Logarithm of Initial Assets</b> |                     |                     |                     |                     |
|---|--|---------------------|---------------------|---------------------|---------------------|
|   | <b>All</b>                             |                     | <b>Before 1997</b>  | <b>After 1997</b>   |                     |
|   | (1)                                    | (2)                 | (3)                 | (4)                 | (5)                 |
| <b>Privatized firm</b>                    | 0.499***<br>(0.048)                    | 0.519***<br>(0.064) | 0.134<br>(0.150)    | 0.343<br>(0.294)    | -0.055<br>(0.174)   |
| <b>Elite</b>                              | 0.099*<br>(0.043)                      | 0.111*<br>(0.050)   | -0.072<br>(0.122)   | 0.026<br>(0.218)    | -0.097<br>(0.148)   |
| <b>Share of industrial output by SOEs</b> | -0.264*<br>(0.116)                     | -0.265*<br>(0.116)  | -0.450**<br>(0.145) | -0.159<br>(0.291)   | -0.474**<br>(0.170) |
| <b>Two-way interactions</b>               |  |                     |                     |                     |                     |
| Privatized firm*Elite                     |  | -0.043<br>(0.091)   | 0.521*<br>(0.216)   | 0.177<br>(0.439)    | 0.690**<br>(0.249)  |
| Privatized firm*Share                     |  |                     | 0.855**<br>(0.300)  | 0.843<br>(0.679)    | 0.995**<br>(0.330)  |
| Elite*Share                               |  |                     | 0.401<br>(0.243)    | 0.157<br>(0.489)    | 0.430<br>(0.278)    |
| <b>Three-way interaction</b>              |  |                     |                     |                     |                     |
| Privatized firm*Elite*Share               |  |                     | -1.255**<br>(0.441) | -0.579<br>(1.032)   | -1.488**<br>(0.482) |
| <b>Individual characteristics</b>         |  |                     |                     |                     |                     |
| Party member (before)                     | 0.111*<br>(0.045)                      | 0.112*<br>(0.045)   | 0.111*<br>(0.045)   | 0.197*<br>(0.086)   | 0.066<br>(0.052)    |
| Years of education                        | 0.115***<br>(0.007)                    | 0.115***<br>(0.007) | 0.115***<br>(0.007) | 0.102***<br>(0.013) | 0.119***<br>(0.009) |
| Male                                      | 0.249***<br>(0.058)                    | 0.249***<br>(0.058) | 0.246***<br>(0.058) | 0.098<br>(0.112)    | 0.311***<br>(0.066) |
| Age (before)                              | 0.005<br>(0.003)                       | 0.005<br>(0.003)    | 0.005<br>(0.003)    | -0.003<br>(0.005)   | 0.007*<br>(0.003)   |
| <b>Provincial economic controls</b>       |  |                     |                     |                     |                     |
| Fiscal revenue                            | -0.001<br>(0.000)                      | -0.001<br>(0.000)   | -0.001<br>(0.000)   | -0.001<br>(0.001)   | 0.000<br>(0.000)    |
| Fiscal expenditure                        | -0.000<br>(0.000)                      | -0.000<br>(0.000)   | -0.000<br>(0.000)   | 0.001<br>(0.001)    | -0.001*<br>(0.000)  |
| Ln(PGDP)                                  | -0.178<br>(0.301)                      | -0.181<br>(0.302)   | -0.184<br>(0.302)   | 1.080*<br>(0.480)   | -0.076<br>(0.755)   |
| Lagged Ln(PGDP)                           | 0.344<br>(0.296)                       | 0.347<br>(0.296)    | 0.349<br>(0.296)    | -0.877<br>(0.485)   | 0.045<br>(0.764)    |
| <b>Other controls</b>                     |  |                     |                     |                     |                     |
| Survey year dummies                       | YES                                    | YES                 | YES                 | YES                 | YES                 |
| Industry dummies (before)                 | YES                                    | YES                 | YES                 | YES                 | YES                 |
| <b>Constant</b>                           | 1.388***<br>(0.312)                    | 1.387***<br>(0.313) | 1.474***<br>(0.316) | 1.204*<br>(0.540)   | 3.136***<br>(0.488) |
| <i>N</i>                                  | 6528                                   | 6528                | 6528                | 2429                | 4099                |
| <i>R</i> <sup>2</sup>                     | 0.187                                  | 0.187               | 0.188               | 0.156               | 0.219               |

Notes: Standard deviations in parentheses; \*\*\* p < 0.001, \*\* p < 0.01, \* p < 0.05. “Before” indicates status when the firm was established. “Elites” include former directors of public enterprises, former tenants and contractors of public enterprises, and former directors of government agencies and institutions.

**Table 6. Logit Models Predicting Private Entrepreneurs' Political Connections**

|                                   | <b>DV: Political Position</b> |                      |                      |                      |
|-----------------------------------|-------------------------------|----------------------|----------------------|----------------------|
|                                   | <b>NPC member</b>             |                      | <b>CPPCC member</b>  |                      |
|                                   | (1)                           | (2)                  | (3)                  | (4)                  |
| <b>Privatized firm</b>            | 0.684***<br>(0.073)           | 0.499***<br>(0.101)  | -0.047<br>(0.070)    | -0.121<br>(0.095)    |
| <b>Elite</b>                      | 0.255***<br>(0.068)           | 0.128<br>(0.084)     | 0.200**<br>(0.062)   | 0.160*<br>(0.070)    |
| <b>Privatized firm*Elite</b>      |                               | 0.369**<br>(0.138)   |                      | 0.154<br>(0.133)     |
| <b>Individual characteristics</b> |                               |                      |                      |                      |
| Party member (current)            | 0.547***<br>(0.068)           | 0.547***<br>(0.068)  | -0.504***<br>(0.062) | -0.506***<br>(0.063) |
| Years of schooling                | 0.028*<br>(0.012)             | 0.029*<br>(0.012)    | 0.095***<br>(0.011)  | 0.095***<br>(0.011)  |
| Male                              | -0.122<br>(0.104)             | -0.119<br>(0.104)    | 0.166+<br>(0.086)    | 0.167+<br>(0.086)    |
| Age (current)                     | 0.012**<br>(0.004)            | 0.012**<br>(0.004)   | 0.028***<br>(0.004)  | 0.028***<br>(0.004)  |
| <b>Other controls</b>             |                               |                      |                      |                      |
| Survey year dummies               | YES                           | YES                  | YES                  | YES                  |
| Industry dummies (current)        | YES                           | YES                  | YES                  | YES                  |
| Establishment year dummies        | YES                           | YES                  | YES                  | YES                  |
| Province dummies                  | YES                           | YES                  | YES                  | YES                  |
| <b>Constant</b>                   | -2.733***<br>(0.470)          | -2.685***<br>(0.470) | -2.322***<br>(0.402) | -2.309***<br>(0.402) |
| <i>N</i>                          | 7897                          | 7897                 | 7880                 | 7880                 |
| <i>Pseudo R</i> <sup>2</sup>      | 0.122                         | 0.123                | 0.132                | 0.133                |

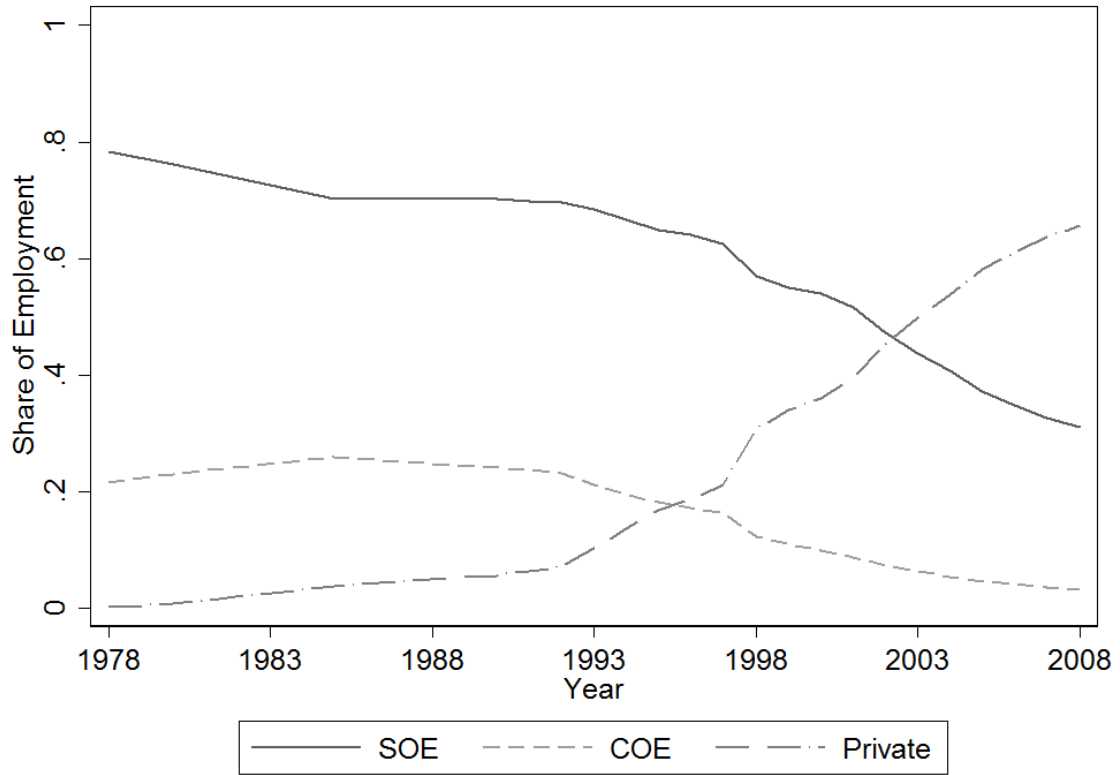
Notes: Standard deviations in parentheses; \*\*\*  $p < 0.001$ , \*\*  $p < 0.01$ , \*  $p < 0.05$ , +  $p < 0.1$ . "Current" indicates status when the survey was conducted. "Elites" include former directors of public enterprises, former tenants and contractors of public enterprises, and former directors of government agencies and institutions. Some observations were dropped from the model because certain industry dummy variables predicted failure perfectly.

**Table 7. Ordinal Logit Models Predicting Private Entrepreneurs' Self-Perceived Status**

|   | DV: Perceived Status (1-10) |                     |                     |                     |                     |                     |                     |                     |                     |
|---|-----------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
|   | Economic Status             |                     |                     | Social Status       |                     |                     | Political Status    |                     |                     |
|   | (1)                         | (2)                 | (3)                 | (4)                 | (5)                 | (6)                 | (7)                 | (8)                 | (9)                 |
| <i>Type of private entrepreneur (ref. Non-elite-owned private firm)</i> |                             |                     |                     |                     |                     |                     |                     |                     |                     |
| Elite-owned private firm  | 0.115<br>(0.064)            | 0.066<br>(0.064)    | 0.054<br>(0.064)    | 0.067<br>(0.064)    | 0.033<br>(0.064)    | 0.011<br>(0.064)    | 0.087<br>(0.063)    | 0.056<br>(0.063)    | 0.015<br>(0.063)    |
| Nonelite-owned privatized firm  | 0.013<br>(0.082)            | -0.098<br>(0.083)   | -0.104<br>(0.083)   | -0.025<br>(0.082)   | -0.101<br>(0.082)   | -0.109<br>(0.082)   | 0.051<br>(0.081)    | -0.005<br>(0.081)   | 0.008<br>(0.082)    |
| Elite-owned privatized firm   | 0.257**<br>(0.082)          | 0.076<br>(0.082)    | 0.027<br>(0.083)    | 0.362***<br>(0.082) | 0.236**<br>(0.082)  | 0.161<br>(0.083)    | 0.374***<br>(0.081) | 0.283***<br>(0.081) | 0.181*<br>(0.082)   |
| <i>Economic capital</i>   |                             |                     |                     |                     |                     |                     |                     |                     |                     |
| Ln(assets) (current)  |                             | 0.258***<br>(0.018) | 0.233***<br>(0.018) |                     | 0.188***<br>(0.017) | 0.145***<br>(0.017) |                     | 0.152***<br>(0.017) | 0.074***<br>(0.017) |
| Ln(income)  |                             | 0.333***<br>(0.023) | 0.323***<br>(0.023) |                     | 0.167***<br>(0.021) | 0.154***<br>(0.021) |                     | 0.073***<br>(0.021) | 0.053**<br>(0.020)  |
| <i>Political capital</i>  |                             |                     |                     |                     |                     |                     |                     |                     |                     |
| NPC member  |                             |                     | 0.376***<br>(0.065) |                     |                     | 0.583***<br>(0.065) |                     |                     | 0.904***<br>(0.066) |
| CPPCC member  |                             |                     | 0.262***<br>(0.057) |                     |                     | 0.459***<br>(0.057) |                     |                     | 1.042***<br>(0.058) |
| <i>Individual characteristics</i>                                       |                             |                     |                     |                     |                     |                     |                     |                     |                     |
| Party member (current)  | 0.058<br>(0.055)            | 0.070<br>(0.055)    | 0.060<br>(0.055)    | 0.173**<br>(0.054)  | 0.184***<br>(0.054) | 0.171**<br>(0.055)  | 0.374***<br>(0.054) | 0.381***<br>(0.054) | 0.398***<br>(0.055) |
| Years of education  | 0.023*<br>(0.010)           | -0.031**<br>(0.010) | -0.033**<br>(0.010) | 0.024*<br>(0.010)   | -0.013<br>(0.010)   | -0.015<br>(0.010)   | 0.027**<br>(0.010)  | 0.001<br>(0.010)    | -0.007<br>(0.010)   |
| Male  | 0.205**<br>(0.075)          | 0.048<br>(0.076)    | 0.063<br>(0.076)    | 0.016<br>(0.075)    | -0.099<br>(0.075)   | -0.070<br>(0.075)   | -0.094<br>(0.074)   | -0.180*<br>(0.075)  | -0.149*<br>(0.075)  |
| Age (current)   | -0.006<br>(0.003)           | -0.006<br>(0.003)   | -0.007*<br>(0.003)  | 0.007*<br>(0.003)   | 0.007*<br>(0.003)   | 0.004<br>(0.003)    | 0.019***<br>(0.003) | 0.018***<br>(0.003) | 0.015***<br>(0.003) |
| <i>Other controls</i>   |                             |                     |                     |                     |                     |                     |                     |                     |                     |
| Survey year dummies   | YES                         | YES                 | YES                 | YES                 | YES                 | YES                 | YES                 | YES                 | YES                 |
| Industry dummies (current)  | YES                         | YES                 | YES                 | YES                 | YES                 | YES                 | YES                 | YES                 | YES                 |

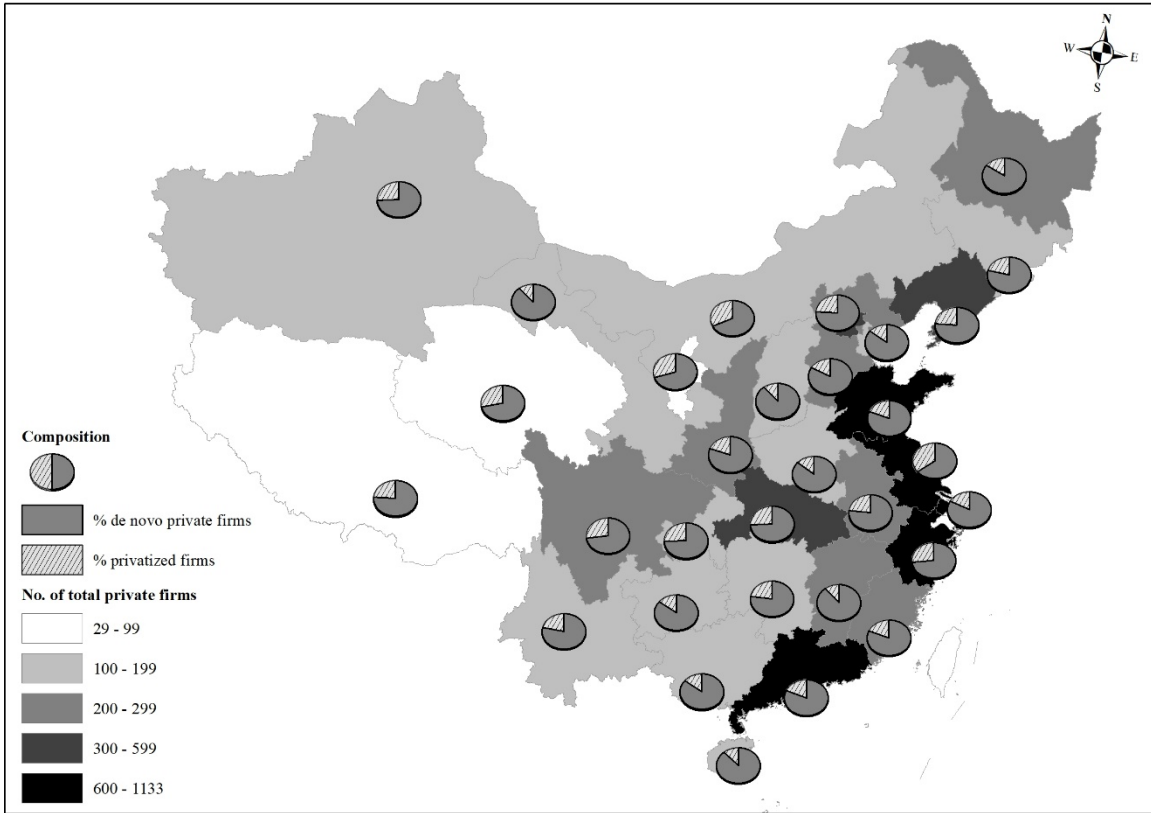
|                              |        |        |        |        |        |        |        |        |        |
|------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Establishment year dummies   | YES    | YES    | YES    | YES    | YES    | YES    | YES    | YES    | YES    |
| Province dummies             | YES    | YES    | YES    | YES    | YES    | YES    | YES    | YES    | YES    |
| <i>N</i>                     | 5688   | 5688   | 5688   | 5688   | 5688   | 5688   | 5688   | 5688   | 5688   |
| <i>Pseudo R</i> <sup>2</sup> | 0.0266 | 0.0561 | 0.0584 | 0.0441 | 0.0559 | 0.0619 | 0.0340 | 0.0392 | 0.0594 |

Notes: Standard deviations in parentheses; \*\*\*  $p < 0.001$ , \*\*  $p < 0.01$ , \*  $p < 0.05$ . “Current” indicates status when the survey was conducted. “Elites” include former directors of public enterprises, former tenants and contractors of public enterprises, and former directors of government agencies and institutions.



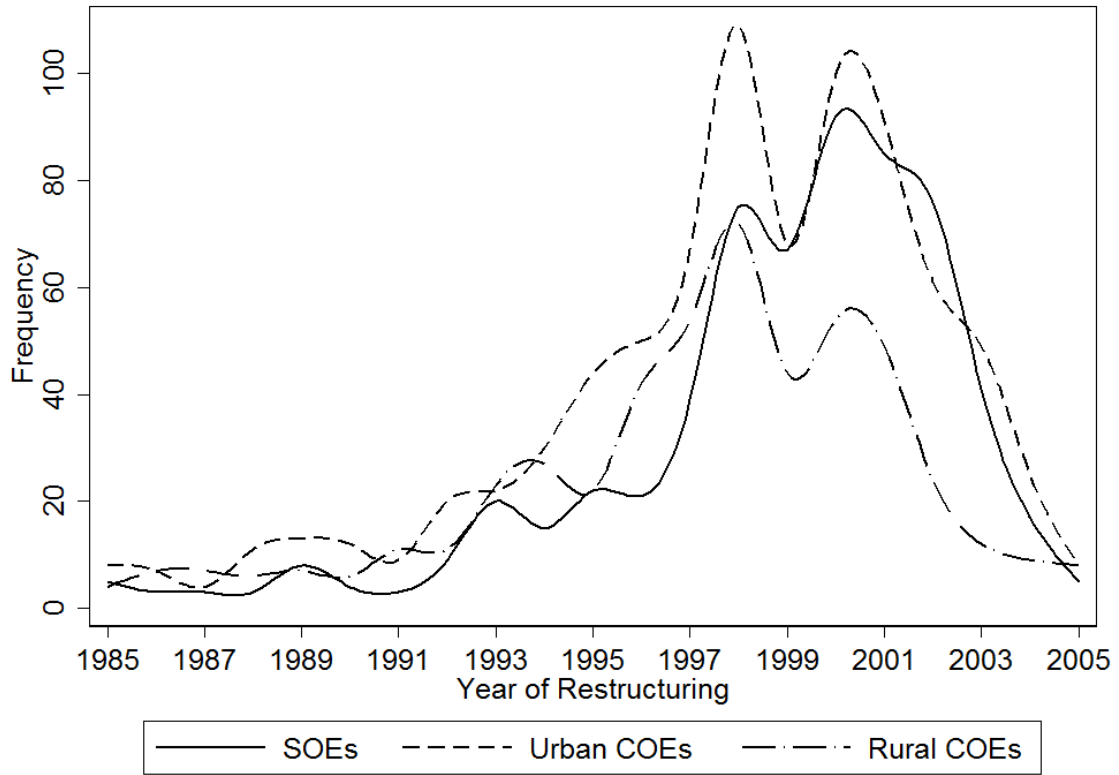
Source: China Statistical Yearbook 2009

**Figure 1. Changes in Employment Numbers in Urban China, by Ownership, 1978–2008**



Source: China Private Enterprises Surveys 2002, 2004, 2006.

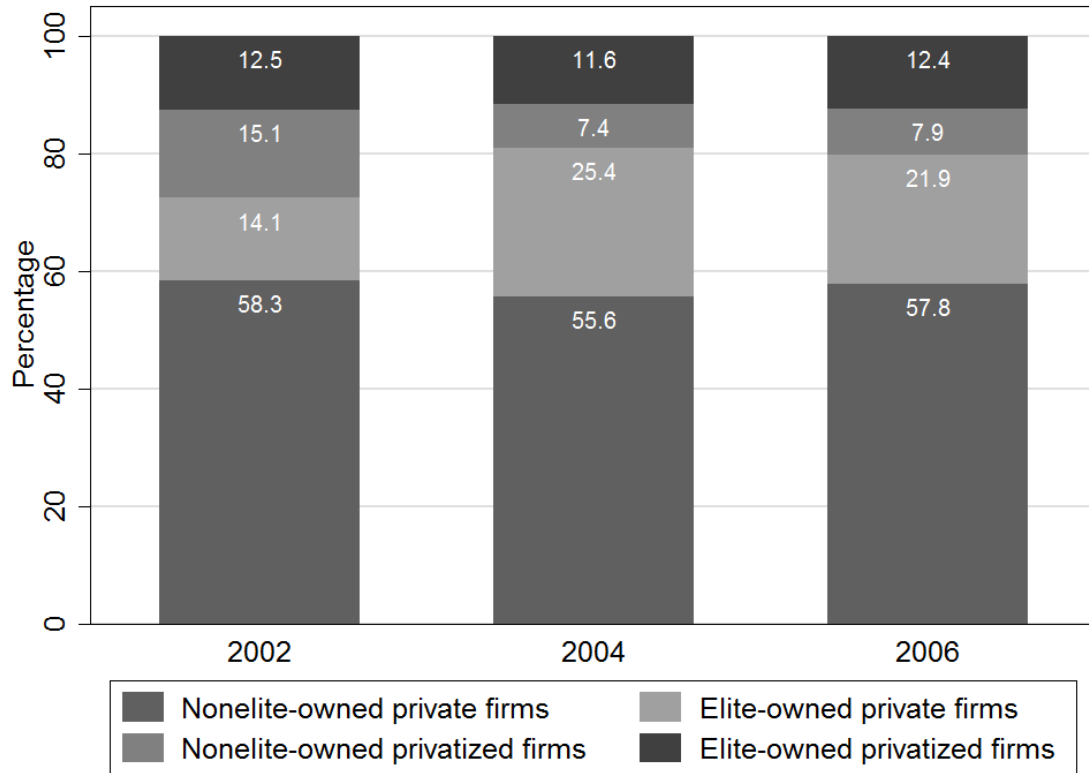
**Figure 2. Geographic Distribution of *de novo* Private Firms and Privatized Firms**



Source: China Private Enterprises Survey 2002, 2004, 2006.

**Figure 3. Temporal Distribution of Restructuring, by Ownership**

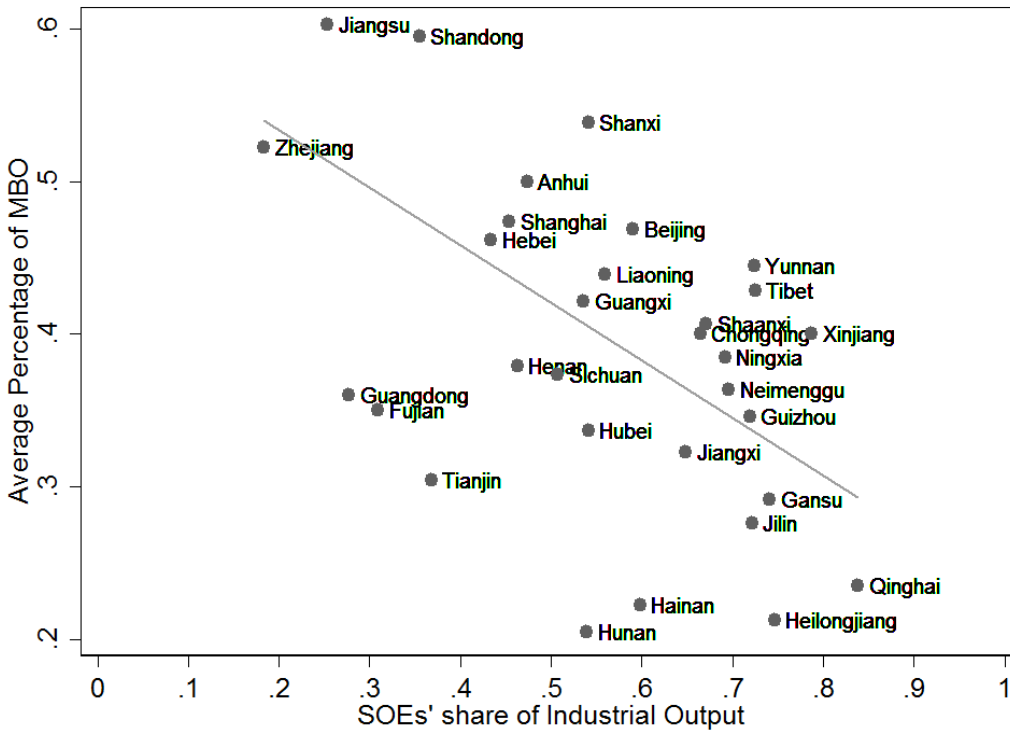
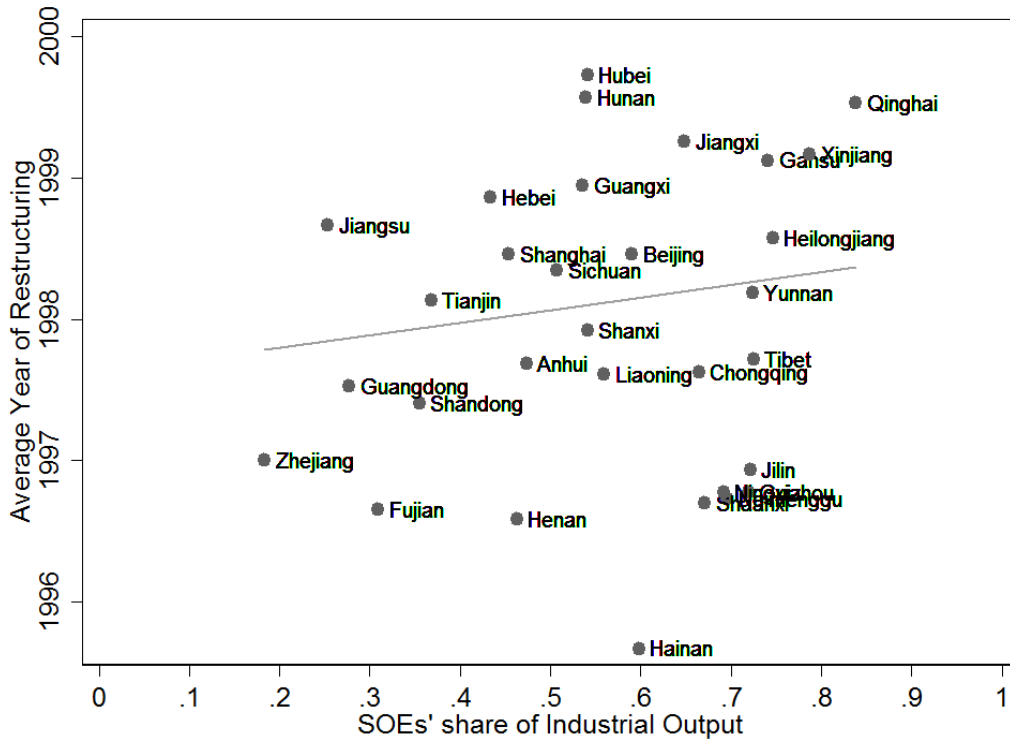




Source: China Private Enterprises Survey Data 2002, 2004, 2006.

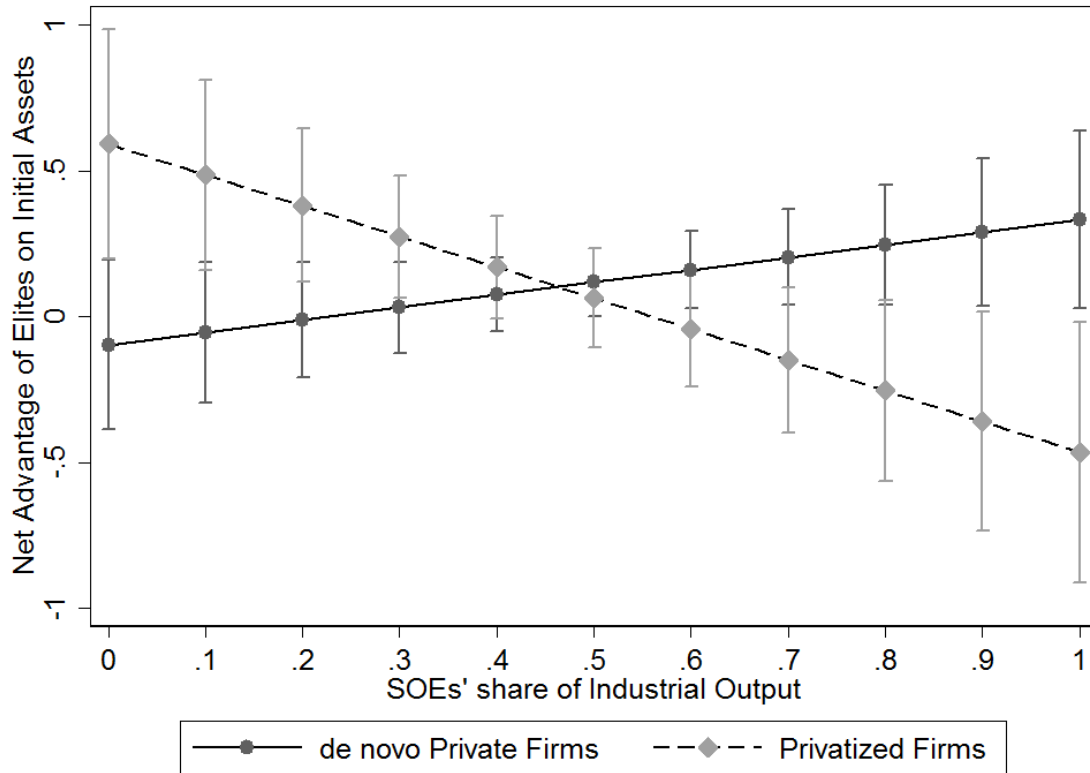
“Elites” include former directors of public enterprises, former tenants and contractors of public enterprises, and former directors of government agencies and institutions.

**Figure 4. Ownership of Chinese Private Enterprises, by Survey Year**



Source: China Private Enterprises Survey data 2002, 2004, 2006.

**Figure 5. The Descriptive Relationships between SOEs' Share of Industrial output and Timing and Mode of Privatization**



Source: China Private Enterprises Survey Data 2002, 2004, 2006.

“Elites” include former directors of public enterprises, former tenants/contractors of public enterprises, and former directors of government agencies and institutions.

**Figure 6. Model-predicted Relationship between SOEs’ Share of Industrial output and Elites’ Net Advantage in Terms of Initial Assets, by Firm Type**

## APPENDIX

**Table A1. Private Entrepreneurs' Previous Jobs before the Establishment of their Current Firms (%)**

### Panel A. Last Occupation

|   | 1993   | 1995   | 1997   | 2000   | 2002   | Total  |
|---|--------|--------|--------|--------|--------|--------|
| Professionals                             | 11.19  | 11.48  | 4.24   | 9.74   | 6.37   | 8.57   |
| Director of government agency/institution | 6.25   | 8.21   | 2.56   | 3.85   | 3.15   | 4.73   |
| Director of public enterprise             | 13.37  | 13.18  | 4.73   | 14.59  | 12.07  | 11.96  |
| Director of private enterprise            | 1.96   | 1.55   | 19.21  | 20.67  | 43.99  | 20.07  |
| Self-employed                             | 8.79   | 10.27  | 27.53  | 18.06  | 15.13  | 15.91  |
| Others                                    | 58.43  | 55.32  | 41.73  | 33.09  | 19.27  | 38.75  |
| Total                                     | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |
| <i>N</i>                                  | 1,376  | 2,717  | 1,838  | 2,907  | 3,139  | 11,977 |

### Panel B. Last Post

|  | 1993   | 1995   | 1997   | 2000   | 2002   | Total  |
|--|--------|--------|--------|--------|--------|--------|
| Junior cadre                           | N/A    | N/A    | 8.73   | 10.05  | 7.38   | 5.63   |
| Senior cadre                           | 7.43   | 5.07   | 5.44   | 10.12  | 8.48   | 7.50   |
| Village cadre                          | 6.11   | 6.19   | 1.93   | 3.31   | 2.54   | 3.90   |
| Tenant/contractor of public enterprise | 2.92   | 2.38   | 13.92  | 17.15  | 14.90  | 10.80  |
| Others                                 | 83.54  | 86.36  | 70.99  | 59.37  | 66.70  | 72.17  |
| Total                                  | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |
| <i>N</i>                               | 1,440  | 2,602  | 1,765  | 2,717  | 2,994  | 11,518 |

### Panel C. Last Work Unit

|                    | 1993   | 1995   | 1997   | 2000   | 2002   | Total  |
|--------------------|--------|--------|--------|--------|--------|--------|
| State-owned        | 33.23  | 29.80  | 7.54   | 20.88  | 15.10  | 20.73  |
| Collectively-owned | 25.84  | 24.68  | 8.20   | 22.84  | 14.50  | 19.14  |
| Others             | 40.93  | 45.52  | 84.26  | 56.28  | 70.40  | 60.12  |
| Total              | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |
| <i>N</i>           | 1,339  | 2,711  | 1,830  | 2,864  | 3,125  | 11,869 |

Source: China Private Enterprise surveys 1993–2002

**Table A2. OLS Models Predicting the Initial Equity when Firms were Privatized or Established**

|   | <b>DV: Logarithm of Initial Assets</b> |                     |                     |                     |                     |
|---|--|---------------------|---------------------|---------------------|---------------------|
|   | <b>All</b>                             |                     | <b>Before 1997</b>  | <b>After 1997</b>   |                     |
|   | (1)                                    | (2)                 | (3)                 | (4)                 | (5)                 |
| <b>Privatized firm</b>                    | 0.333***<br>(0.050)                    | 0.341***<br>(0.067) | 0.047<br>(0.156)    | 0.027<br>(0.302)    | -0.094<br>(0.184)   |
| <b>Elite</b>                              | 0.084<br>(0.045)                       | 0.089<br>(0.052)    | -0.090<br>(0.127)   | -0.043<br>(0.223)   | -0.114<br>(0.157)   |
| <b>Share of industrial output by SOEs</b> | -0.368**<br>(0.121)                    | -0.368**<br>(0.121) | -0.492**<br>(0.151) | -0.181<br>(0.298)   | -0.494**<br>(0.180) |
| <b>Two-way interactions</b>               |  |                     |                     |                     |                     |
| Privatized firm*Elite                     |  | -0.017<br>(0.095)   | 0.547*<br>(0.226)   | 0.475<br>(0.450)    | 0.621*<br>(0.263)   |
| Privatized firm*Share                     |  |                     | 0.652*<br>(0.314)   | 1.409*<br>(0.694)   | 0.606<br>(0.350)    |
| Elite*Share                               |  |                     | 0.392<br>(0.253)    | 0.275<br>(0.501)    | 0.391<br>(0.294)    |
| <b>Three-way interaction</b>              |  |                     |                     |                     |                     |
| Privatized firm*Elite*Share               |  |                     | -1.266**<br>(0.461) | -1.100<br>(1.061)   | -1.286*<br>(0.509)  |
| <b>Individual characteristics</b>         |  |                     |                     |                     |                     |
| Party member (before)                     | 0.009<br>(0.047)                       | 0.009<br>(0.047)    | 0.006<br>(0.047)    | 0.089<br>(0.088)    | -0.028<br>(0.055)   |
| Years of education                        | 0.092***<br>(0.008)                    | 0.092***<br>(0.008) | 0.092***<br>(0.008) | 0.083***<br>(0.013) | 0.093***<br>(0.010) |
| Male                                      | 0.210***<br>(0.060)                    | 0.210***<br>(0.060) | 0.207***<br>(0.060) | 0.044<br>(0.114)    | 0.281***<br>(0.070) |
| Age (before)                              | 0.002<br>(0.003)                       | 0.002<br>(0.003)    | 0.001<br>(0.003)    | -0.004<br>(0.005)   | 0.004<br>(0.003)    |
| <b>Provincial economic controls</b>       |  |                     |                     |                     |                     |
| Fiscal revenue                            | -0.000<br>(0.000)                      | -0.000<br>(0.000)   | -0.000<br>(0.000)   | -0.001<br>(0.001)   | 0.000<br>(0.000)    |
| Fiscal expenditure                        | -0.000<br>(0.000)                      | -0.000<br>(0.000)   | -0.000<br>(0.000)   | 0.001<br>(0.001)    | -0.001*<br>(0.000)  |
| Ln(PGDP)                                  | -0.174<br>(0.314)                      | -0.175<br>(0.314)   | -0.165<br>(0.314)   | 0.813<br>(0.490)    | 0.172<br>(0.799)    |
| Lagged Ln(PGDP)                           | 0.307<br>(0.308)                       | 0.308<br>(0.308)    | 0.299<br>(0.308)    | -0.630<br>(0.496)   | -0.219<br>(0.810)   |
| <b>Other controls</b>                     |  |                     |                     |                     |                     |
| Survey year dummies                       | YES                                    | YES                 | YES                 | YES                 | YES                 |
| Industry dummies (before)                 | YES                                    | YES                 | YES                 | YES                 | YES                 |
| <b>Constant</b>                           | 1.827***<br>(0.326)                    | 1.826***<br>(0.326) | 1.878***<br>(0.329) | 1.363*<br>(0.552)   | 3.470***<br>(0.518) |
| N   | 6432                                   | 6432                | 6432                | 2398                | 4034                |
| R <sup>2</sup>                            | 0.136                                  | 0.136               | 0.137               | 0.124               | 0.166               |

Notes: Standard deviations in parentheses; \*\*\* p < 0.001, \*\* p < 0.01, \* p < 0.05. “Before” indicates status when the firm was established. “Elites” include former directors of public enterprises, former tenants and contractors of public enterprises, and former directors of government agencies and institutions.