

**NEW**  
**ADVICE THAT'S WORKING**  
Latest picks developed from top performers



**HULBERT ON MARKETS**  
MarketWatch  
WHAT'S WORKING NOW  
FREE 4-WEEK TRIAL ▶

Dow Jones Reprints: This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers, use the Order Reprints tool at the bottom of any article or visit [www.djreprints.com](http://www.djreprints.com)

See a sample reprint in PDF format.

Order a reprint of this article now

**THE WALL STREET JOURNAL.**  
WSJ.com

THE SATURDAY ESSAY | MAY 15, 2010

## China's Private Party

*The Communist Party has made strenuous efforts to keep signs of its enduring power out of sight to the Chinese public and the rest of the world. Richard McGregor on the secrets of the world's largest political machine and its role in Beijing's growing clout.*

By RICHARD MCGREGOR

On the desks of the heads of China's 50-odd biggest state companies, amid the clutter of computers, family photos and other fixtures of the modern CEO's office life, sits a red phone. The executives and their staff who jump to attention when it rings know it as "the red machine," perhaps because to call it a mere phone does not do it justice. "When the 'red machine' rings," a senior executive of a state bank told me, "you had better make sure you answer it."

The red machine is like no ordinary phone. Each one has just a four-digit number. It connects only to similar phones with four-digit numbers within the same encrypted system. They are much coveted nonetheless. For the chairmen and women of the top state companies, who have every modern communications device at their fingertips, the red machine is a sign they have arrived, not just at the top of the company, but in the senior ranks of the Party and the government. The phones are the ultimate status symbol, as they are only given out—under the orders of the Party and government—to people in jobs with the rank of vice minister and above.

The phones are encrypted not just to secure party and government communications from foreign intelligence agencies. They also provide protection against snooping by anyone in China outside the party's governing system. Possession of the red machine means you have qualified for membership of the tight-knit club that runs the country, a small group of about 300 people, mainly men, with responsibility for about one-fifth of humanity.

The modern world is replete with examples of elite networks that wield behind-the-scenes power beyond their mere numerical strength. The United Kingdom had the "old-boy network," originally coined to describe connections between former students of upper-class, non-government schools; Japan has the Todai elite, graduates of the law school of Tokyo University, an entry point into the long-time ruling Liberal Democratic Party, the Finance Ministry and business. The U.S. has the Ivy League, the Beltway, K Street and the military-industrial complex, and a host of other labels to signify the opaque influence of well-connected insiders.

None can hold a candle to the Chinese Communist Party, which takes ruling-class networking to an entirely new level. The red machine gives the party apparatus a hotline into multiple arms of the state, including the government-owned companies that China promotes around the world these days as independent commercial entities. As a political machine alone, the Party is a phenomenon of awesome and unique dimensions. By mid-2009, its membership stood at 76 million, equal to about one in 12 adult Chinese.

China's post-Maoist governing model, launched by Deng Xiaoping in the late 1970s, has endured many attempts to explain it. Is it a benevolent, Singapore-style autocracy? A capitalist development state, as many described Japan? Neo-Confucianism mixed with market economics? A slow-motion version of post-Soviet Russia, in which the elite grabbed productive public assets for private gain? Robber-baron socialism? Or is it something different

altogether, an entirely new model, a "Beijing Consensus," according to the fashionable phrase, built around practical, problem-solving policies and technological innovation?

Few describe the model as communist anymore, often not even the ruling Chinese Communist Party itself.

How communism came to be air-brushed out of the rise of the world's greatest communist state is no mystery on one level. The multiple, head-spinning contradictions about modern China can throw anyone off the scent. What was once a revolutionary party is now firmly the establishment. The communists rode to power on popular revulsion against corruption but have become riddled by the same cancer themselves. Top leaders adhere to Marxism in their public statements, even as they depend on a ruthless private sector to create jobs. The Party preaches equality, while presiding over incomes as unequal as anywhere in Asia.

The gap between the fiction of the Party's rhetoric ("China is a socialist country") and the reality of everyday life grows larger every year. But the Party must defend the fiction nonetheless, because it represents the political status quo.

The Party's defense of power is also, by extension, a defense of the existing system. In the words of Dai Bingguo, China's most senior foreign policy official, China's "number one core interest is to maintain its fundamental system and state security." State sovereignty, territorial integrity and economic development, the priorities of any state, all are subordinate to the need to keep the Party in power.

The Party has made strenuous efforts to keep the sinews of its enduring power off the front stage of public life in China and out of sight of the rest of the world. A decade into the 21st century, the Beijing headquarters of the big Party departments, whose power far outstrips that of mere ministries, still have no signs outside indicating the business inside and no listed phone numbers. For many in the West, it has been convenient to keep the Party backstage too, and pretend that China has an evolving governmental system with strengths and weaknesses, quirks and foibles, like any other. China's flourishing commercial life and embrace of globalization is enough for many to dismiss the idea that communism still has traction, as if a Starbucks on every corner is a marker of political progress.

Peek under the hood of the Chinese model, however, and China looks much more communist than it does on the open road. Vladimir Lenin, who designed the prototype used to run communist countries around the world, would recognize the model immediately. The Chinese Communist Party's enduring grip on power is based on a simple formula straight out of the Leninist playbook. For all the reforms of the past three decades, the Party has made sure it keeps a lock-hold on the state and three pillars of its survival strategy: control of personnel, propaganda and the People's Liberation Army.

Since installing itself as the sole legitimate governing authority of a unified China in 1949, the Party and its leaders have placed its members in key positions in every arm, and at each level, of the state. All the Chinese media come under the control of the propaganda department, even if its denizens have had to gallop to keep up in the Internet age. And if anyone decides to challenge the system, the Party has kept ample power in reserve, making sure it maintains a tight grip on the military and the security services, the ultimate guarantors of its rule. The police forces at every level of government, from large cities to small villages, have within them a "domestic security department," the role of which is to protect the Party's rule and weed out dissenting political voices before they can gain a broad audience.

China long ago dispensed with old-style communist central planning for a sleeker hybrid market economy, the Party's greatest innovation. But measure China against a definitional checklist written by Robert Service, the veteran historian of Soviet Russia, and Beijing retains a surprising number of the qualities that characterized communist regimes of the 20th century.

Like communism in its heyday elsewhere, the Party in China has eradicated or emasculated political rivals; eliminated the autonomy of the courts and press; restricted religion and civil society; denigrated rival versions of nationhood; centralized political power; established extensive networks of security police; and dispatched dissidents to labor camps.

The Party in China has teetered on the verge of self-destruction numerous times, in the wake of Mao Zedong's brutal campaigns over three decades from the 1950s, and then again in 1989, after the army's suppression of demonstrations in Beijing and elsewhere. The Party itself suffered an existential crisis after the collapse of the Soviet Union and its satellite states in 1992, an event that resonates to this day in the corridors of power in Beijing. After each catastrophe, the Party has picked itself off the ground, reconstituted its armor and reinforced its flanks. Somehow, it has outlasted, outsmarted, outperformed or simply outlawed its critics.

Few events symbolized the advance of China and the retreat of the West during the financial crisis more than the touchdown in Beijing of Secretary of State Hillary Clinton in February 2009. Previous U.S. administrations, under Bill Clinton and George W. Bush, had arrived in office with an aggressive, competitive posture towards China. Before she landed, Ms. Clinton publicly downplayed the importance of human rights. At a press conference before leaving, she beamingly implored the Chinese government to keep buying U.S. debt, like a traveling saleswoman hawking a bill of goods.

Deng Xiaoping's crafty stratagem, laid down two decades earlier, about how China should advance stealthily into the world—"hide your brightness; bide your time"—had been honored in the breach long before Ms. Clinton's arrival. China's high-profile tours through Africa, South America and Australia in search of resources, the billion-dollar listings of its state companies (including PetroChina and the Industrial & Commercial Bank of China) on overseas stock markets, its rising profile in the United Nations and its sheer economic firepower had made China the new focus of global business and finance since the turn of the century. China's star was shining more brightly than ever before, even as its diplomats protested they were battling to be heard on behalf of a relatively poor, developing economy.

The implosion of the Western financial system, along with an evaporation of confidence in the U.S., Europe and Japan, overnight pushed China's global standing several notches higher. In the space of a few months in early 2009, the Chinese state committed \$50 billion in extra funding for the International Monetary Fund and \$38 billion with Hong Kong for an Asian monetary fund; extended a \$25 billion loan to cash-strapped Russian oil companies; set aside \$30 billion for Australian resource companies; offered tens of billions more to various countries or companies in South America, central and Southeast Asia, to lock up commodities and lay down its marker for future purchases. In September, China readied lines of credit of up to \$60 to \$70 billion for resource and infrastructure deals in Nigeria, Ghana and Kenya.

Beijing's ambition and clout were being lit up in ways that would have been unthinkable a few years previously. The Chinese central bank called for an alternative to the U.S. dollar as a global reserve currency in early 2009, and reiterated its policy as the year went on. France obediently recommitted to Chinese sovereignty over Tibet to placate Beijing's anger over the issue, after Beijing had canceled an E.U. summit in protest at Paris's welcome for the Dalai Lama. On its navy's 60th anniversary, China invited the world to view its new fleet of nuclear-powered submarines off the port of Qingdao.

The giant Chinese market had become more important than ever. Just ahead of the Shanghai auto show in April 2009, monthly passenger car sales in China were the highest of any market in the world, surpassing the U.S. A month later, Wang Qishan and a team of Chinese ministers met Catherine Ashton, then the E.U. trade commissioner, and about 15 of Europe's most senior business executives in Brussels to hear their complaints about Chinese market access. Sure, Mr. Wang conceded after listening to their problems over a working lunch, there are "irregularities" in the market. "I know you have complaints," he replied. "But the charm of the Chinese market is irresistible." In other words, according to astonished executives in the meeting, whatever your complaints, the market is so big, you are going to come anyway. Even worse, many of the executives realized that Mr. Wang was right.

The rise of China is a genuine mega-trend, a phenomenon with the ability to remake the world economy, sector by sector. That it is presided over by a communist party makes it even more jarring for a Western world which, only a few years previously, was feasting on notions of the end of history and the triumph of liberal democracy.

In just a single generation, the party elite has been transformed from a mirthless band of Mao-suited, ideological thugs to a wealthy, business-friendly ruling class. Today's Party is all about joining the highways of globalization, which in turn translates into greater economic efficiencies, higher rates of return and greater political security.

In the absence of democratic elections and open debate, it is impossible to judge popular support for the Party. But it is indisputable that support for the Party has grown with reform since Mao's death. The Chinese Communist Party and its leaders have never wanted to be the West when they grow up. For the foreseeable future, it looks like their wishes will all come true.

*Richard McGregor is deputy news editor and former Beijing bureau chief for the Financial Times. This essay is adapted from "The Party: The Secret World of China's Communist Rulers."*

Copyright 2009 Dow Jones & Company, Inc. All Rights Reserved

This copy is for your personal, non-commercial use only. Distribution and use of this material are governed by our [Subscriber Agreement](#) and by copyright law. For non-personal use or to order multiple copies, please contact Dow Jones Reprints at 1-800-843-0008 or visit [www.djreprints.com](http://www.djreprints.com)