

How would you describe the Chinese economy since the reforms and opening in 1978? Is it communist, capitalist, market-socialist – or something else?

As China dominates the world stage economically, the questioning of the nature of their economy is almost inevitable. What kind of economy does China have? Political and economic commentators have proclaimed it as both a communist country and a capitalist country while China considers itself to be Socialist. However, recent discourse has been leading on the identification of China as a ‘Socialist Market Economy’. This situation of economic and political ambiguity is quite unique just like many other aspects of Chinese society. The existence of such speculation and theorisation is founded by the unique structure of China, as the country has seemingly morphed from the inclinations of a socialist society to include more capitalist structures and activities. Despite the inclusion of what will initially be considered ‘socialist’ and capitalist elements in Chinese society, this essay serves to argue that recent identifications of the Chinese economy as a socialist market economy are theoretically flawed and are a form of deliberate dialectal ignorance. Consequently, this argument will discuss the appropriateness of State Capitalism as an identification of China’s economy as a more apt replacement.

The initial movement towards a market-oriented Chinese economy took place in the year 1978, at which time major reforms were introduced by the then leader of the Chinese Communist Party, Deng Xiaoping and his government. These reforms focused on a ‘Four Modernizations’ model through which the Chinese government prioritised the development of agriculture, industry, national defence and technology. In the following decade, the reformation of China continued. The country saw changes in its stance on international relations and trade as it began ‘opening up’ by allowing foreign direct investment, allowing Chinese businesses to engage in foreign enterprises, creating the country’s first ever stock market and even beginning diplomatic relations with the USA. These economic policies were followed by changes in Chinese political ideology as well. As in 1978, Deng Xiaoping announced in his speech¹ at The Third Plenary Session of the 11th CPC Central Committee that the Chinese Communist Party (CCP) was shifting their focus from a ‘class struggle’ approach to an approach of ‘socialist modernisation’.

The shifting ideology, accompanied by the major economic reforms occurring in China left political commentators stumped. Was China becoming a capitalist country? What will follow socialist modernisation in years to come? These questions are still left to be answered. China today identifies itself as a socialist country with ‘Chinese characteristics’ despite its adoption of capitalist activity and structures in the country. In the book² *‘CPC Futures, The New Era of Socialism with Chinese Characteristics’*, this self-identification is referred to as the “Sinification of Marxism.” The book provides a rationale for the Chinese government’s affinity to a socialist identity stating that, “the CPC’s political legitimacy still rests on its theoretical allegiance to Marxism, creating a great tension between what it says and what it does. Realising this tension, the CPC has put the sinification of Marxism at the top of its priorities for theoretical innovation.” The simple reasoning for this ‘Sinification of Marxism’ being that theoretically speaking, socialism is much more forgiving than capitalism as a theory, as its principles rest firmly in the benefit of the people and the success of an equal society above profits and monetary goals. Additionally, as the history of Chinese politics is so deeply intertwined with Socialist and Marxist-Leninist ideology, it is beneficial for the Chinese government to still cling to it as it prioritises continuity in the face of modernisation.

¹ ‘Communiqué of the Third Plenary Session of the 18th Central Committee of the Communist Party of China’, Beijing Review, 57.6 (2014), 中插1–中插6

² Pieke, Frank, and Bert Hofman. 2022. *CPC Futures: The New Era of Socialism with Chinese Characteristics* (East Asian Institute) <<https://library.oapen.org/handle/20.500.12657/58473>> [accessed 14 October 2022]

However, upon closer inspection ‘Chinese Characteristics’ can be identified as Capitalist characteristics. Loosely, the term is often interpreted to mean the adaptation and prioritisation of traditional Chinese practices and ideologies in the execution of the socialist agenda. Historically speaking, these traditional Chinese elements could include capitalism. The existence of the Chinese Dynastic era presents capitalism as a part of Chinese history. The book³ ‘*Capitalism: Towards a Global History*’ explores the relationship between this era of Chinese dynasties, particularly the Song Dynasty, which saw the emergence and boom of maritime trade, development of industry and private commerce. Vladimir Lenin himself, who was a great ideological influence on the CCP, identified imperialism as yet another form of capitalism in his book⁴ ‘*Imperialism, The Highest Stage of Capitalism*’.

From a differing perspective, critically analysing China’s model of Socialism with Chinese Characteristics or as previously discussed- Capitalist characteristics, may in itself be an unavailing argument. The reason for this being that there are differing understandings of Socialism altogether. The socialist revolutionary Vladimir Lenin held the stance that the existence of State Capitalism (what many would identify China as today) is a necessary step towards a post-capitalist Socialist economy but is not in fact Socialism. He is quoted in his pamphlet *The Tax In Kind*⁵ saying,

“We must not count on going straight to communism. We must build on the basis of peasants’ personal incentive... State capitalism would be a step forward as compared with the present state of affairs in our Soviet Republic... Not only will the payment of a heavier tribute to state capitalism not ruin us, it will lead us to socialism by the surest road.”

Meanwhile, Lenin’s successor Joseph Stalin inadvertently identified socialism as state monopoly over a mixed economy which included capitalist activity. Essentially, Lenin acknowledged state capitalism as a transitory step towards true socialism, while Stalin omitted its transitory nature and effectively identified state capitalism as the end rather than the means to an end. Political activist Tony Cliff was quoted in his work *State Capitalism in China*⁶ saying, “I am convinced that the analysis of Stalinist Russia as state capitalist, as elaborated some 48 years ago, has proved its value and is a necessary rebuttal of Stalinism.” Cliff attributed Stalin’s re-invention of the Socialist definition to the downfall of Socialist ideology globally. As these differing views of Socialism exist, it increases the difficulty of ascertaining a specific economic structure to China’s current economy. If loosely following Stalinist ideals, China could effectively be identified as a truly Socialist state even despite its capitalist nature. Meanwhile, it could be theorised that China is simply on par with Leninist theory and is in its crucial temporary phase of state capitalism, through which it will eventually become truly Socialist but does not exist as such currently.

Despite the increasing discourse about capitalist structures in China, the existing features of state control should not be overlooked. According to an American report entitled *An Analysis of State-owned Enterprises and State Capitalism in China*⁷, 70% of non-financial businesses in China are

³ Yazdani, Kaveh, and Dilip M Menon. 2020. *Capitalisms* (Oxford University Press)
<<https://academic.oup.com/book/33687>> [accessed 14 October 2022]

⁴ Yazdani, Kaveh, and Dilip M Menon. 2020. *Capitalisms* (Oxford University Press)
<<https://academic.oup.com/book/33687>> [accessed 14 October 2022]

⁵ Vladimir Il’ich Lenin. 2012. *Collected Works of V.I. Lenin.*, ed. by Yuri Sdobnikov (Moscow: Progress Publishers Publishers)
<<https://www.marxists.org/archive/lenin/works/cw/pdf/lenin-cw-vol-32.pdf>> [accessed 10 October 2022]

⁶ Cliff, Tony. 2018. *State Capitalism in Russia*. (Bookmarks Publications)
<<https://www.marxists.org/ebooks/cliff/state-capitalism-in-russia-cliff.pdf>> [accessed 10 October 2022]

⁷ Szamosszegi, Andrew, and Cole Kyle. 2011. *An Analysis of State-Owned Enterprises and State Capitalism in China* (Washington, D.C: U.S - China Economic and Security Review Commission)

State Owned Enterprises (SOEs) which encompasses businesses that are completely state funded or that the state holds enough shares in to play a prominent controlling role. In comparison, only 26% are privately owned, while 3% are collectively owned and 1% are foreign owned. The report also stated that most statistics that attempt to compare China's private and public sector fail to accurately depict the scope of State Owned Enterprises as only solely state funded businesses are identified while businesses with significant shares owned by the state are not. The report states,

“It is reasonable to conclude that by 2009 nearly half of China's economic output could be attributable to either SOEs, State Holding Enterprises(SHEs), and other types of enterprises controlled by the SOEs indirectly. If the output of urban collective enterprises and the government-run proportion of Township and Village Enterprises (TVEs) are considered, the broadly defined state sector likely surpasses 50 percent.”

These statistics prove that despite the economic reforms and China's 'opening up', state control is very much still a dominant feature of the Chinese economy. The existence of such state control is very important in distinguishing China from being an exclusively capitalist country.

The now established re-emergence of Capitalism has catapulted China's economic success globally and has solidified it as a world power. According to the World Bank⁸, since the economic reforms of 1978, China's GDP has grown by over 9% each year and many economic analysts have predicted that its GDP will surpass the USA's. While the country's adoption of capitalist activities has allowed it to significantly reduce poverty, it has also caused levels of inequality to substantially increase. A working paper by the International Monetary Fund (IMF) entitled *Inequality in China – Trends, Drivers and Policy Remedies*⁹ states that, “China has moved from being a moderately unequal country in 1990 to being one of the most unequal countries. Income inequality in China today, as measured by the Gini coefficient, is among the highest in the world.” These statistics prove to be interesting when thought of in conjunction with Deng Xiaoping's announced movement away from 'class struggle' in 1978 when the initial market reforms were presented, when in fact, the propagation of these economic reforms that were capitalistic in nature have furthered the need for a class struggle in the country.

Upon the establishment of these facts, the final stage of this argument may be executed. What kind of economy is China? A simple Google search of this question provides resoundingly similar results- “China is a socialist market economy.” As such, the most important argument is yet to be explored. That being the hypocrisy of identifying China as a socialist market economy or more fittingly- China identifying itself as Socialist with Chinese (Capitalist) Characteristics. The hypocrisy is exemplified in the linkage between 'class struggle' and the capitalist economic reforms that have been previously highlighted, but it can be simplified even further. Simply put, capitalism and socialism can not co-exist within a single economy. For over a century and stemming from the founders of socialist theory, socialism has always been an opposition to capitalism. The socialist movement at the start of the 20th Century was driven as a critique of capitalism and sought to remove that economic structure. Therefore, the intimation that an economy can be both socialist and capitalist is theoretically

<<https://static1.squarespace.com/static/5e41c6f5227c7b05e81bb87a/t/5ebc4f41cb51d10a41c54989/1589399365069/AZS-CK-China-SOE.pdf>> [accessed 11 October 2022]

⁸ 'China Overview'. 2022. The World Bank

<<https://www.worldbank.org/en/country/china/overview#:~:text=Since%20China%20began%20to%20open>> [accessed 12 October 2022]

⁹ Jain- Chandra, Sonali, Niny Khor, Rui Mano, Johanna Schauer, Philippe Wingender, and others. 2018. *Inequality in China – Trends, Drivers and Policy Remedies*, International Monetary Fund (International Monetary Fund)

<<https://www.imf.org/en/Publications/WP/Issues/2018/06/05/Inequality-in-China-Trends-Drivers-and-Policy-Remedies-45878>> [accessed 14 October 2022]

flawed and would likely cause socialist founders like Karl Marx and Vladimir Lenin to turn in their graves. The lure of a market oriented Socialist economy is understandable, as the issues faced economically during the Soviet era has reasonably sparked the movement towards the reimagining of Socialism in which new economic structures can exist upon a socialist backdrop. Despite the comprehension of the appeal, the current execution is misguided. China's remaining state control on enterprises can not sufficiently overshadow the inexplicable rise of inequality and the increase of economic competition and for-profit activity and therefore it can not be sufficiently identified as truly socialist with these existing structures.

This sentiment begs the question of 'What is true socialism?' A separate essay in itself would be needed to appropriately answer this question. Luckily, an explanation of such is not needed to appropriately examine China's place in Socialism as there already exists a socialist framework that China can be compared to. From a Marxist perspective, the current economic structure of China mimics the description of 'Bourgeois Socialism' as described in *The Communist Manifesto*¹⁰ by Karl Marx and Friedrich Engels. The book states that, "The Socialistic bourgeois want all the advantages of modern social conditions without the struggles and dangers necessarily resulting therefrom. They desire the existing state of society minus its revolutionary and disintegrating elements." The economic success of China and the multiplication of wealth it has experienced since its initial reforms in 1978 has effectively separated it from any inclinations of being truly socialist as its acceptance and encouragement of opposing structures prevents that identification. In the book *The Chinese Model of Modern Development*¹¹ this comparison is further explained by stating, "The central economic program of Petty Bourgeois Socialism is to establish a 'socialist market economy', especially through reforming and transforming the existing institutions of financial markets." This can be mirrored quite appropriately to China's economic reforms and the market-oriented nature of its economy as a result. It is important to distinguish the fact that Bourgeois Socialism is not merely a form of Socialism outlined by Marx, instead it is an adversary of true socialism as it does not aim to achieve the requisite end goal of an equal and equitable society.

The unique and complex economic and political structure of China has led to the divided discourse on the nature of its economy. China has not developed in the same way that most powerful modern countries have, and as such, identifying their structure is a rather difficult task. Consequently, it would be remiss to say that there is a clear-cut answer to the question of China's economy. However, the ambiguity of certain elements of this topic should not permit the use of theoretically inept interpretations as an answer solely for the sake of there being an answer. The misguided approach of labelling China's economy as a 'socialist market economy' proves to be an injustice to the long standing theoretical frameworks of Socialism and serves as a cushioning for the unsavoury fact that capitalism in fact exists in China. The existence of strong state control on enterprises in China is not sufficient enough of a characteristic to determine it as a socialist country and the existence of capitalism and its effects such as inequality further diminishes the country's claim of socialism. The co-existence of significant state control on China's economy and society, along with its adoption of market-oriented policies and Capitalist activity can more appropriately be described as a State Capitalist Economy. As China still clings to a socialist identity, its future now depends on whether it will follow a Leninist approach and eventually evolve into true socialism or a Stalinist approach and be entrenched in capitalism interminably.

¹⁰ Marx, Karl, and Friedrich Engels. 2018. *The Communist Manifesto* (London: Selfmadehero)

¹¹ Tian Yu Cao, and Cui Zhiyuan. 2005. *The Chinese Model of Modern Development* (London ; New York: Routledge), i, p. Liberal socialism and the future of China: a petty bourgeoisie manifesto <<https://www.taylorfrancis.com/chapters/edit/10.4324/9780203311288-18/liberal-socialism-future-china-petty-bourgeoisie-manifesto-cui-zhiyuan>> [accessed 13 October 2022]

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<<https://www.marxists.org/archive/lenin/works/cw/pdf/lenin-cw-vol-32.pdf>> [accessed 10 October 2022]
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