

POLITICAL ECONOMY OF STATE CAPITALISM: A SNAPSHOT ON CHINA'S STATE CAPITALISM

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Abstract

This study examines the political economy of state capitalism with particular reference to China's state capitalism. Relying on qualitative method of data collection through the use of secondary sources of materials, the study argues that China's economic growth in the past decades has been both enabled, nurtured, conditioned and constrained by global capitalism and at the same time the successful Chinese growth model under state capitalism has heightened global competition, and accentuated the inherent contradictions of capitalist development in other countries, including many advanced economies. The paper reveals that China's state capitalism employs market practices, capitalist incentives and prudent macro-economic regulation, while performing quite well in aggregated economic terms. It concludes that the existence of an organized market rely largely on a set of institutional foundations that are created, legitimated, regulated and periodically modernized under the umbrella of a political authority such as a state so as to establish various rights and duties attributed to different notions of property.

Keywords: *Political Economy, Capitalism, State Capitalism, China*

Introduction

Many observers have argued that the Washington Consensus is rapidly fading out. The Washington Consensus which is largely based on the principles of free-market capitalism has also been termed the neo-liberal model of capitalism. The Consensus has remained dominant ideationally and practically in setting the agenda for global economic governance and development. This has made Stiglitz to assert that with the aftermath of the global financial crisis, "the rules of the game have changed ... The Washington Consensus policies and the underlying ideologies of market fundamentalism are dead" (Stiglitz 2010:296).

There are those who are less convinced that the neo-liberal Washington Consensus and its global influence will rapidly give way to a new order. According to (Crouch 2011), declaring the death of neo-liberalism because of the dislocations caused by the financial crisis of 2008 analytically misunderstands the issue at hand. Neo-liberalism is based on the power and the persistence of large multinational corporations domiciled in advanced

economies. These favored institutions continue to deeply influence their governments and the global political economic order. It is not about the dominance of market forces, but about the dominance of large corporations that favor deregulation, low taxes, privatization, and liberalization in developing economies. In the opinion of (Nair 2011:55), large multinational corporations undergird the Washington Consensus and as a result, the consensus remains intact. It is against the foregoing that this paper examines the political economy of state capitalism with particular reference to China State Capitalism.

Conceptualizing Capitalism

The term capitalism is a system of governance for economic affairs that has emerged in different settings and continues to evolve over time. The Macmillan Dictionary of Modern Economics defines capitalism as a political, social and economic system in which property, including capital assets, is owned and controlled for the most part by private persons. This is to say that capitalism contrasts with an earlier economic system- feudalism, in the sense that it is characterized by the purchase of labor for money wages as opposed to the direct labor obtained through custom, duty or command in feudalism.

Meanwhile, in a capitalist system, the price mechanism is used as a signaling system which allocates resources between uses. The extent to which the price mechanism is used, the degree of competitiveness in markets, and the level of government intervention distinguish exact forms of capitalism (Scott 2006). The above definitions however, identifies capitalism as a social, political, and economic system that succeeded feudalism based upon recognition of the rights of private parties to choose how to employ their labor and capital in markets as indicated by market prices instead of tradition. It recognizes the price mechanism as its key coordinating device instead of command and control, and suggests that capitalist systems are distinguishable from one another based upon the extent and nature of governmental interventions and the competitiveness of their markets. According to Scott, this definition offers only a very brief introduction to the notion of capitalism as a system. He asserts further that it does not distinguish between direct and indirect methods of intervention from government and its administrative and entrepreneurial roles (Scott 2006). Governments may intervene directly in markets through such actions as seizing land by eminent domain or nationalizing a firm; alternatively, they may intervene indirectly by altering the institutional foundations in which market transactions take place, e.g., altering the size, shape, or location of a market, or altering the rights and responsibilities of various classes of economic actors, the rules of accounting and so on (Scott 2006).

Theoretical and Analytical Approaches

From the political economy perspective, this paper examines the factors and implications of China's economic transformation and its unique state capitalism in maintaining high economic growth in the past three decades and in shaping the broader dynamics of global capitalism. Suffice it to say that in a number of ways, China's economic development in the past seems to have been made possible and grown thereby setting conditions that are faced by global capitalism. In the same vein, the success of Chinese model of development under state capitalism has enabled global competition with recourse to the inherent contradictions of capitalist development in many parts of the world.

From the above however, it can be argued that to some extent the success of Chinese state capitalism is redefining the limitation of liberal market capitalism around the world. History has it that there has been an internal-external linkage between China and the external world, intertwined with a challenge-response duality: China's internal transformations were triggered by external challenges; meanwhile the capitalist world system had to adjust and readjust itself to the opportunities and constraints brought about by the "China factors" (Li & Shaw 2013).

There is no gainsaying that the Chinese state capitalism has generated a lot of scholarly debates in public discourse in recent time which appeared to have supplemented and extended from the discussion of "East Asian

capitalism” in previous decades (Li & Shaw 2013). Conceptually and theoretically, this paper draws some of its analytical references to the previous studies on state-market relations in East Asian developmental states (Evans, 1990; Haggard, 1986; Johnson, 1982; Wade, 1990; Weiss, Linda & Hobson, 1995; Woo-Cumings, 1994).

Scholars such as Lucian Pye (1990), Fitzgerald (1996) and Beckman (1998) proposed to use the notion of “civilization-state” to conceptualize China rather than to apply “nation-state” as a unit of analysis derived from the West-centered international relations. According to (Li & Shaw 2013), the notion implies that China was and still is an “empire state”, i.e. a unique historical tradition of governance, and has a unique political culture and state-society relationship. It follows that it would be a failure to apply the logic of the Western “nation state” framework to analyze and understand the evolution and development of China, including issues such as democracy, nationalism and identity. They opined further that China’s historical and cultural unity and uniqueness implies a constant “appropriation” development in the process of its national identity and territorial integrity, in other words, a continuous sinicization process. Sinicization entails a spontaneous process of absorbing foreign ideas while forcing them to be mixed with and embedded into Chinese native practices (Li & Shaw 2013).

In an attempt to comprehend or to get the proper picture of “state capitalism with Chinese characteristics”, it is fundamental to examine how external factors helped to shape China’s internal transformations historically. In other words, to explore how generations of Chinese have been struggling to respond to the external challenges and attempting to sinicize external ideology so as to transform China internally. Worthy of note is that one of China’s most enduring characteristics in the 20th century has been “an unending process of internalization of the external which we may call ‘Sinification’ (Tan, 1996:236). The process of sinicization has been embedded historically in China’s social and political transformation from a “civilization-state” to a “nation-state” as well as from a Maoist socialist state to a Dengist capitalist state (Li, 2010a; Li and Christensen, 2012).

According to Gramsci (1971), political theories provide an understanding of the “hegemony” and “passive revolution” of modern capitalism in which the leading classes are willing to adopt changes (Transformation) while retaining the essential existing features of organization and mode of functioning. Looking at the issue from this perspective however, it can be argued that the Chinese party-state has also been in an uninterrupted process of passive revolution (Li & Shaw 2013), that is, continuous political adaptation, reflected in the unique embedded reform process as an attempt to neutralize and reduce the market dissembling forces caused by the structural differentiation effect. However, the Gramscian analytical perspective provides a framework of understanding the new Chinese hegemony generated by a deliberate embeddedness struggle in a nexus of social, political and economic relations (Li and Christensen, 2010).

Meanwhile, the post-Mao leadership undertook a modernization process through economic reforms aiming at sinicizing Western market capitalism with “Chinese characteristics” and through embracing market capitalism while incorporating China into the existing world system. In this regards, China has been undergoing transformative changes through a series of processes of economic, institutional and ideological passive revolutions. Not only has the previous class-based party-state system been replaced by a market-based party-state system, but it has also successfully integrated itself with the capitalist world system (Li, 2010 as cited in Li & Shaw 2013). In another development, (Wank 2001) provides a framework of understanding the development of Chinese state-market in which the previous political power by politics in command is commodified to accommodate and negotiate with the market power by economics in command. The Wank’s theory of institutional clientism provides a good analytical tool to examine China’s unique state-market-society embedding process through the lens of patron-client ties between entrepreneurs operating private firms, and cadres staffing the party-state administrative, distributive and production institutions. This matching is realized and maintained through a dynamic relationship, neither strictly political nor purely economic in character (Li & Shaw 2013).

It is also pertinent to note that (Wank 2001) provides a framework of understanding China's dynamics in state-market-society relations over the last three decades, and examines how the dynamics are generated in the process of China's market transition. What becomes fundamental here is to find the unique features of embeddedness of Chinese socio-cultural and socio-political adaptation through marketizing decision-making powers and commodifying state institutions and distribution mechanisms.

The Political Economy of state Capitalism

Worthy of note is that microeconomics is the study of how markets (the usual defining institution of capitalism) coordinate decentralized decision making through a price mechanism to bring demand and supply into equilibrium. From the above perspective however, capitalism is a largely self-regulating economic system in which the proper role of government is limited to providing certain basic public goods and services at low cost (Scott 2006). In the opinion of Adam Smith, little else is required to carry a state to the highest degree of opulence from the lowest barbarism but peace, easy taxes and a tolerable administration of justice (Scott 2006). Smith's explanation for this minimalist role for government was derived from his seminal insight that the pricing mechanism would coordinate the actions of private actors so as to achieve socially optimal outcomes. He therefore assert thus:

As every individual....endeavours...to employ his capital in the support of domestic industry, and so to direct that industry that its produce may be of greatest value; every individual labours to render the annual revenue of society as great as he can. [While] he intends only his own gain, ...he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention (Smith cited in Scott 2006).

Meanwhile, if market prices are to coordinate the actions of economic actors so that they can spontaneously maximize the revenues for society as well as for individuals, then those market prices must reflect true societal costs and benefits. While markets may well reflect such costs and benefits, there are certain well known situations where they fail to do so, externalities, where certain costs and benefits are not fully included in the market framework are the most immediate exception to Smith's assumption. Externalities reflect imperfections in the laws and regulations that make up the market frameworks. These imperfections cannot legitimately be corrected by the economic actors themselves; the corrections must be made by a political authority, i.e. government (Scott 2006). He (Scott) stressed further that any framework must be modernized periodically in light of changing conditions and changing societal priorities, and this again requires government. Unless the market frameworks are appropriately adjusted, including as circumstances change, then there can be no assurance that the maximization of individual incomes approximates a similar outcome for society. To say that little is required from government but peace, easy taxes and tolerable administration is to overlook the essential role of government in providing the legal and regulatory frameworks that are essential to capitalism. It reduces the study of capitalism to the analysis of how markets operate in a static context that has assumed away the regulatory and political issues (Scott 2006).

A snapshot on China's State Capitalism

The view that China's political economy has evolved over the past 30 years into a form of state-led capitalism has gained increasing prominence (Huang 2008; Bremmer 2010). Meanwhile, with regards to other forms of refurbished state capitalism, China's state capitalism employs market practices, capitalist incentives and prudent macro-economic regulation, while performing quite well in aggregated economic terms. According to (McNally 2012), China's model of capitalism encompasses substantial internal variety, has been deeply exposed to the forces of neo-liberal globalization, and represents a hybrid in terms of its institutional arrangements. To McNally, China is not an economic monolith guided by ultimate and comprehensive central state forces. Quite the reverse: China represents a heterogeneous political economy with considerable local

variation. There are considerable differences in the role of the state, local governance arrangements and degrees of openness to foreign investment and capital flows. Coastal areas such as Guangdong and Shanghai are deeply integrated into international trade and production networks, while some interior provinces such as Shanxi and Inner Mongolia resemble resource exporters like Russia and Saudi Arabia with large state conglomerates dominating economic activity (McNally 2013).

Secondly, as with all contemporary cases of refurbished state capitalism, the influence of globalization has allowed neo-liberal market practices to enter China (cf. ten Brink 2010, 2011a; Chu, So 2010). Therefore, in terms of policies, China has adopted more free market practices than earlier developers in East Asia (Lee, Hahn, Lin 2002; Chu, So 2010). These include substantial access by foreign capital to China's manufacturing and retail sectors; the relatively rapid development of stock markets and intensive use of international capital markets; and a relatively flexible domestic labor market. China's adaptation of neo-liberal market strategies has perhaps created one of the world's highest "absorption capacities" for global manufacturing capital among developing economies (Edmonds, La Croix, Li 2008).

However, China has followed quite closely in the footsteps of its East Asian forerunners, using programs of subsidized investment in key leading industries, an export-led growth strategy, and the suppression of domestic consumption to encourage high savings and investment rates (Edmonds, La Croix, Li 2008, (McNally 2012). Worthy of note also is that China has been using exchange rate controls to maintain an under-valued currency that fosters export performance, just as Japan, Taiwan, and South Korea did before it (McNally 2012). Finally, China represents a hybrid, combining Western, Asian, socialist, as well as Chinese historical and modern elements. Especially China's historical background, both socialist and imperial, frames its state-centric approach to economic management (cf. Gates 1996; Jacques 2009). The Chinese party-state retains control over the commanding heights of the economy via large state firms and state research institutes. Crucial sectors ranging from telecoms to airlines, rail, oil and gas, and all mineral mining and processing tend to be majority state-owned or state-controlled.

In essence, China's emergent capitalism encompasses a unique dialectic of state-led capitalism juxtaposed with entrepreneurial network capitalism (McNally 2008; 2012). Top-down, state-guided development dominates, but bottom-up a myriad of medium and small sized private firms have used entrepreneurial strategies to create highly flexible production and knowledge networks with global reach. This bottom-up network character of China's capitalism relies in part on informal personal relations that enable private Chinese businesses to link up with state officials as well as each other to build trust and compensate for a lack of institutional certainty (McNally 2011). To (Williamson and Zheng 2008), this networked element is most apparent in China's small-to medium-size private enterprise sector, where myriads of companies can collaborate to create economies of scale, and access technology, markets and finance. These vibrant and globally enmeshed networks of producers and traders have in fact allowed China to become a key component of the Western-led economic system, assimilating multinational production and knowledge networks into China (Steinfeld 2010, (McNally 2012). To McNally, China's state capitalism contains elements of industrial policy, national champions, and sovereign wealth funds. He opined further that the harnessing of its domestic financial systems to support industrial policy goals is also prominent. China's refurbished state capitalism thus incorporates top-down a large and powerful state enterprise sector; bottom-up entrepreneurial networks with considerable flexibility and global reach; and outside-in influences from the forces of neo-liberal globalization, including high levels of foreign trade, direct investment and knowledge transfers (McNally 2012).

However, (Heilman 2010) is of the opinion that China's state capitalism ultimately constitutes a refurbished form of indicative planning that combines localized policy experimentation with vibrant market competition. Because of its economic heft, China is often viewed as the leading edge of new forms of state capitalism in emerging market economies. To be sure, China's model of capitalism still remains subordinated to neo-liberal Anglo-American capitalism in globally systemic terms. Yet, the nature and logic of China's emergent state capitalism is beginning to have an increasing impact. In essence, China's state capitalism puts less trust in free

markets and more trust in state guidance. Market forces are utilized, as long as state control over key economic aspects remains intact. And as can be found in all variations of refurbished state capitalisms, the prevailing economic management philosophy is that economic development has to be carefully managed by statist measures to foster the conditions for national economic development and industrial catch-up. China's state capitalism, as that of Brazil, India, and others, distinguishes itself not only in terms of institutional arrangements, but also in terms of ideational precepts on how economic affairs should be managed (McNally 2012; Brink 2011).

Conclusion

There is no gainsaying that capitalism is a system that is political as well as economic or to sum it up in a short way, it is a system of political economy. It is however, worthy of note that the existence of an organized market rely largely on a set of institutional foundations that are created, legitimated, regulated and periodically modernized under the umbrella of a political authority such as a state so as to establish various rights and duties attributed to different notions of property. Suffice it to say that it is government and its agents and not the private economic actors who create and ultimately enforce the laws and regulations that guide production and trade. Since property rights are societal constructs and not gifts of nature, these rights will only take proper account of societal costs and benefits if they are established through a political process that is broadly representative of society itself, for example, a democracy with a strong middle class.

What becomes fundamental to note here is that government has two modes of interventions in an economy which are direct and indirect interventions. However, the indirect mode of intervention is pertinent to the operation of a capitalist system and not optional. This is to say that the direct role is much more optional, for example in the ownership and control of public enterprises or the taking of land by those that controls the power of the state. In addition, there are other two pertinent roles to play by government in any capitalist economy which include as an administrator of a going system and as an innovator.

Another important thing to also note is that the bureaucracy has most of the responsibilities in terms of the administrative role, but political leaders have the prime responsibility of promoting changes to the system. Therefore, capitalism has two hands, one the familiar if invisible hand of the pricing mechanism which coordinates economic actors within the current frameworks, and the other visible hand of government, where it is both as an administrator and as an innovator.

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