

JUST HOW CAPITALIST IS CHINA?

Artigo submetido às **Sessões Ordinárias** do XVIII Congresso da Sociedade de Economia Política (SEP), a ser realizado em Belo Horizonte, nos dias 28 a 31 de Maio de 2013.

Área Temática escolhida: **Economia Política, Capitalismo e Socialismo.**

Sub-área escolhida: **Capitalismo Contemporâneo.**

Autor: Tiago Nasser Appel. Mestre em Desenvolvimento Econômico pela UFPR e Doutorando em Economia Política Internacional na UFRJ.

ABSTRACT

Is China a capitalist society? What does it mean to be capitalist? In this paper, we review old and modern conceptions of the word and then we proceed to evaluate how “well” does China fare on three purportedly touchstones of capitalism: competitive markets, generalization of wage-labour, and private ownership of the means of production. While we accept that China has come a long way under the first two criteria since the demise of the Command Economy, we do not deem China yet to be a full-fledged capitalist economy for the State still wields great power through the allocation of massive state resources and control of large and highly profitable state enterprises, which dominate key sectors of the economy. In other words, there is still much “Social Control of Investment”, as the State holds direct or indirect control over the larger share of loans and investments in the economy.

Key-Words: China, Capitalism, State-Enterprises, Social Control of Investment.

RESUMO

A China é uma economia capitalista? O que significa ser capitalista? Neste artigo, nós revisamos concepções antigas e contemporâneas do termo e depois avaliamos o “desempenho” da economia chinesa em três prováveis pilares do capitalismo: a existência de mercados competitivos, a generalização do trabalho assalariado e a propriedade privada dos meios de produção. Apesar de aceitar a hipótese de que a China já passou por muitas transformações sob os dois primeiros critérios, desde o fim da “Economia de Comando”, nós não acreditamos que a China já se tornou uma economia capitalista em sentido pleno. Isto porque o Estado Chinês ainda detém grande poder discricionário sobre a alocação de gigantescos recursos públicos e controle sobre grandes e altamente lucrativas empresas estatais, que dominam setores-chave da economia. Em outras palavras, ainda há muito “Controle Social do Investimento”, já que o Estado mantém controle direto ou indireto sobre a maior parte do crédito e dos investimentos na economia.

Palavras-Chave: China, Capitalismo, Empresas Estatais, Controle Social do Investimento.

1. Introduction

Is Modern China an example of a capitalist society? What does it mean to be capitalist, anyway? Does it entail the private ownership of the means of production, as in the Marxist tradition, or does it convey the more subtle existence of fairly competitive markets, in which free enterprises compete for profits? For all that is worth, the Communist Party of China (CPC) rightly claims to be following the path of “Socialism with Chinese Characteristics”, one of its official ideologies. According to the party leaders, China still trails the path of socialism, despite the “pro-market” reforms that since 1978 have transformed its economy into an industrial powerhouse. The CPC would have abandoned much of its ideological attachment to Maoism and would have become much more pragmatic, but nonetheless would still be committed to the pursuit of socialism. That is, at least, the official rhetoric.

However, many on the Left, both Western and Chinese, believe Deng Xiaoping’s reforms have gone way too far, thoroughly eradicating the socialist foundations upon which rested Mao’s achievements. Namely, the so called “iron rice bowl” – job security and social welfare provided through the workplace – almost completely disappeared in the 1990s. Under the “iron rice bowl” system, even most villagers had open access to nurseries, kindergartens, pensions, not to mention, of course, education. Now a significant share of Chinese workers have to pay for basic health services and labour has purportedly become a commodity like everything else. It is this very commodification of labour, land and even some public services that has prompted Marxists to deem modern Chinese society to be anything but socialist.

In this article, we first review old and modern concepts of “capitalism”. Bearing on a specific definition of the word, we follow on to examine just how capitalist a society is China today.

2. Some Definitions of Capitalism

In his classic history of economic thought book, E. K. Hunt (2002) split up the vast array of late political economists he read into two categories: the ones with the so-called market-based view of economics and the ones who embraced the production-side view. Adam Smith has been long considered to be the forerunner of the first paradigm.

For him, capitalism needed but be equated with the perfect functioning of markets, hence his adage: “little else is requisite to carry a state to the highest degree of opulence from the lowest barbarism, but peace, easy taxes, and a tolerable administration of justice: all the rest being brought about by the natural course of things”¹. On his view, the natural course of things would entail the gradual extension of the market society and its inherent division of labour against the clutches of recalcitrant monarchs and oppressive States, which taxed too much or didn’t so “naturally” uphold property. What then has come to be known as the *Whig* version of history – progress is but a matter of the degree of political and economic freedom individuals enjoy – has enticed many modern followers, one of the most famous being Nobel Laureate Milton Friedman (1962). For him, capitalism is best understood as a “free private enterprise exchange economy”, one that rests on the private and voluntary exchange between free subjects. Another Nobel Laureate, Douglas North (1991), extended Friedman’s definition to include a more accurate description of Property Rights: progress would not rest on so minimalist premises as Smith would have wanted, but required the enforcement of the “right” property rights, that provided the “productive” classes with the right incentives to innovate, work harder, and eventually revolutionize society, bringing out the Industrial Revolution.

Despite being heavily influenced by Marxism, sociologist Immanuel Wallerstein (1974) – the creator of the *World-System* approach to the social sciences – also endorsed a market-based viewpoint of capitalism. Under his new paradigm, the capitalist *world-economy* would mean the extension of the profit-motive to cover the whole political system. Capitalism would then be compatible with various modes of production², ranging from slavery to modern wage-labour. The difference between a capitalist world-economy and a non-capitalist one is that the former has not been transformed into a world-empire, which would (and historically, has) smother the drive and incentives for profit making activities. Although Wallerstein is careful enough to draw a distinction between capitalist economies – ruled by capitalist elites at the forefront of the international division of labour – and backward semi-feudal societies, under his innovative approach the “appropriate unit of analysis for macrosocial inquiry... is neither class, nor state/society, but the larger historical system, in which these categories

¹ Lecture in 1755, quoted in Dugald Stewart, *Account Of The Life And Writings Of Adam Smith LLD*, Section IV, 25.

² That is, with various forms of surplus extraction.

are located”³. Hence, and verging on the ironic if one remembers Trotsky’s aphorism, capitalism is not possible in only one country.

If capitalism is then not only compatible but prospers from the existence of a variety of coerced forms of labour – that would prevail in the periphery of the international system – Wallerstein’s understanding of capitalism is indeed close to, say, Weber’s, who also saw it as a market or exchange relation, rather than a production one. As University of California (Santa Barbara) Professor William Robinson (2009) helps us not to overlook, for Weber any production undertaken for exchange on the market for a profit is capitalist. So, for the author of *The Protestant Ethic and the Spirit of Capitalism* (1905), Capitalism was born out of the generalization of rationalized⁴ exchange profit-pursuing activities, not least buttressed by a Protestant Ethos that favoured this systematic and ironically secular grip to live.

As for Marx, probably the principal exponent of the “production relations-based grasp to society”, capitalism was necessarily a mode of production based on exploitative property relations and the accumulation of capital through the extraction of surplus value from wage-earning workers. Thus, it differs from late exploitative systems⁵ not in the extraction of surplus *per se*, but in how such extraction is accomplished, for it is – unlike slavery and feudalism – hidden and not obvious to the unwary eye. In other words, wage-capital relations are apparently just, bereft of coercion, for they are the result of an engagement between two or more free political men. But Marx’s geniality lay on unraveling how the contractual relation of labour is, in reality, a form of wage slavery, as the worker is not bound to a master or to a piece of land anymore, but is bound to the capitalist class as a whole⁶. Bearing on Marx’s definition, one can perceive how even workers from the late Soviet Union were living under the clutches of capitalism wolves, though disguised as sheep. That is, the Soviet Union abided by a species of state capitalism under which workers had no actual choice where to “invest” their extracted surplus labour. As Marx certainly must have said, socialism cannot possibly coexist with the lack of political freedom.

Under Marx’s definition, China cannot obviously “make the cut” to socialism. In fact, no society would have ever made it. That is why I believe we need more subtle

³ William I. Robinson (2009, p. 79).

⁴ That is, moved by the pursuit of profit and aided by modern systems of accountability.

⁵ That, curiously, have all been to a bigger or lesser degree compatible with commerce and the profit-motive.

⁶ Praises to Scott H. (2003) for making this remark.

definitions of the word to see if we can fit modern China into some kind of pattern, that although not socialist, differs it from other kinds of prevalent models both in West and East.

3. Why is China Different?

In his last book, *Adam Smith in Beijing* (2007), the late scholar Giovanni Arrighi nurtured high hopes that Modern China's example would be the harbinger of the realization of Smith's dream that the "inhabitants of all the different quarters of the world may arrive at the equality of courage and force which ... can alone overawe the injustice of independent nations into ... respect for the rights of one another"⁷. For sure, on Arrighi's view 18th China epitomized all the grandeur of markets without a tinge of capitalism. That is because Arrighi bears on the braudelien definition of capitalism – after Fernand Braudel famous remarks that capitalism is the "top layer" of material life, the anti-market where "the great predators roam and the law of the jungle operates"⁸, where the "possessor of money meets the possessor, not of labor-power, but of political power"⁹, where non-competitive practices prevail and, finally, where the price of commodities has always been imposed from above by rapacious predators of the state and, ironically, of the markets.

That being said, it behooves oneself to try to understand Braudel's conceptions of capitalism as a political one: one should not focus on the *capitalist institutions* per se – like wage-labour and private property – but on the imbrication between state and capital. In other words, no matter how many capitalists lurk around every corner of an economy, if the State is not somehow subordinated to the capitalists *as a class*, this economy remains essentially non-capitalist. In effect, in China organized groups of interest, effectively what we call "civil society" – organized religion, labour or the bourgeoisie – have never historically developed up to the point that they could threaten the state's independence/centrality. Indeed, the absolute centrality of the state meant that no group of interest was ever able to turn it into an instrument for self-aggrandizement. When Arrighi quotes Smith, then, he is really wishing that the rise of what he considers to be a non-capitalist society, that is, whose development was not

⁷ Smith (1776 [1961]), vol. II, p. 141.

⁸ Braudel, 1982, p. 230.

⁹ This phrase is particularly Arrighi's very interpretation of Braudel's work (Arrighi, 1994, p. 23).

based on the so familiar capitalism-militarism-imperialism nexus – might bring about a more democratic international society.

It would be surely self-defeating to test the degree of today's Chinese capitalist class embezzlement of the state¹⁰. But we do know several “stylized facts” that may help sustain Arrighi's opinion about the non-capitalist character of China, even after the purportedly liberal reforms. Mostly thanks to the Maoist era of “text-book” communism, destruction of the capitalist class, and utter equalization of incomes and wealth between the vast majority of the population, China entered the Reform Era displaying the following key and unique characteristics: there were no permanent social cleavages, no entrenched capitalist or landlord class that could set the tone for the “pro-market” reforms; there did not exist a *petty bourgeois* middle-class of shop-keepers and small entrepreneurs that could block the creation of decentralized collective industries that sprung up in the villages and townships across the country; there also obviously did not exist a powerful class deeply connected to “international capitalists”, that is, in good *Dependence Theory* parlance, the economic independence of the nascent private enterprises was not yet curtailed by intimate links to the capitalist transnational corporations¹¹.

David Schweickart (2002), well known for having developed a model of *market socialism* that he calls *Economic Democracy* – which would embody the existence of competitive markets along with public management of capital and democratization of the workplace – adds new heat to our discussion. In his interpretation of Marx, capitalism consists basically of three institutions: private property of the means of production, the market, and wage-labour. Deeming the elimination of the market mechanism by the Soviet Union to have been a tremendous mistake, for it also eliminated the private incentive to work and innovate and, along with it, economic efficiency, Schweickart believes China's post-1978 reforms are on the right track. Despite all the privatization and opening up to international companies that has since ensued, the scholar believes that one key-point of his *Economic Democracy*, the social control of investment¹², is still in force in China. What the country is obviously lacking

¹⁰ There are several authors who claim the Chinese Economy to indulge in some sort of *Crony Capitalism* or to be a *Power Market* economy, rampant with corruption and where the members of the communist party and their capitalist allies hold many privileges and appropriate the bulk of state-owned-enterprises' profits. See, for example, Yasheng Huang (2008).

¹¹ Kudos to David Schweickart (2005) – of whom we will be speaking more shortly – for clarifying those initial pre-reform conditions.

¹² That is, the non-allocation of capital by market forces.

is the last component of his three-item recipe¹³ for *Economic Democracy*, namely, democracy in the work-place. But Schweickart sees light in the dark, for he thinks China has the right ideological resources for advancing revolutionary forms of work management. In spite of the apparent contradictions between the CPC's rhetoric and practice, it still is publicly committed to socialism; and, despite its authoritarianism, it does allow internal debates on the possibility of creating a virtually more just and democratic society, not to mention verily socialist. It knows that speeding up the market reforms – that many in the party already believe have gone too far – will only worsen the already acute problems of income inequality, corruption, and environmental disaster.

Employing then Marx/Schweickart's definition of capitalism – which encompasses the market for goods, for labour and for capital –, we shall proceed to investigate how “well” China fares in its putative move to capitalism; or, if Schweickart is correct, if China still harbors much of the socialist legacy of social control of capital, investment, and economic decisions.

4. What is the Story so Far?

4.1 Competitive Markets

Markets for goods and services are already paramount in China. Through the price mechanism, firms buy services, raw materials and machinery from firms and sell their produce to consumers and other firms; and the environment in which these agents interact is largely free from government controls. In China, already about 95% of consumer goods' prices are market determined. Of course, the state still holds monopolies or quasi-monopolies in key sectors such as telecommunications, financial intermediation, energy and utilities¹⁴. But the State-Owned Enterprises (SOEs) which are responsible for the bulk of production in these important industries theoretically respond to market incentives and are profit-driven. That means we have come a long way since the early 1990s, when SOEs still bore a great deal of the social costs related to the transition to a market economy. According to Wang (1994), up until the early 1990s a large share of SOE's were not turning a profit not due to some inherent

¹³ Competitive markets, social control of capital, and democratization of work-places.

¹⁴ For example, in 2006 state ownership share of total industry revenue hit 95.5% in the Petroleum and Natural Gas Extraction sector and 99.3% in Electricity, Gas and Water sector (see Mattlin, 2009).

inefficiency but because they bore the brunt of tax burdens¹⁵ and had various social responsibilities, including providing workers with day-care, health care, housing services and social security, not to mention the fact that state enterprises concentrated in sectors heavily subject to price control. For the sake of the economy, prices of energy, transportation and other public utilities had long been kept artificially low.

But what is the picture now? In the period Chinese economy expert Barry Naughton (2007) calls “Reform with Losers” (1993-present), state enterprises were forced to resort to significant restructuring and downsizing. From the mid-1990s onward, there ensued an era of relative macroeconomic austerity and apparent diminished patronage: credit to public firms became tighter and they were exhorted to compete on an equal footing with other types of firms (semi-public, collective, private and foreign firms). Corporate Law was also amended (1997), which meant that bankrupt/insolvent state companies could finally be sold off at auction or form joint ventures with other businesses. The biggest losers from the mid-1990s reforms were, of course, the former state-workers that were laid off or lost many of their social benefits. The number of SOE workers decreased by half between 1993 and 2004 and already at the end of this year the urban industrial private sector, without counting foreign-owned firms, employed almost twice as many workers as the traditional state-sector: 55 million against 30 million in SOEs¹⁶. Today it is estimated that only 19 million people work in industrial state enterprises. However, we should not underestimate state enterprises’ sheer importance in the economy. Three hundred and ten of China’s 500 biggest companies are state-controlled, and in 2011 the combined operating revenue of those 310 companies was four times as big as the revenue from the 190 top private companies¹⁷.

4.2 Social Class Structure

China is still far from completing its industrialization process. Proletarians do not yet comprise the majority of workers, for China is still a semi-agrarian society. We

¹⁵ Much of the partially or wholly foreign-owned enterprises set up in the coastal Special Economic Zones (SEZs) – created in the 1980s as part of the strategy of attracting foreign technology and expertise – had tax privileges.

¹⁶ See Naughton (2007, p. 106).

¹⁷ Of course, the rank of the 500 biggest companies also includes non-industrial enterprises, such as banks and other financial institutions, over which the state also holds a quasi-monopoly. See China Enterprise Confederation & China Enterprise Directors Association (CEC/CEDA).

make this statement bearing on Minq Li's (2008) classification of Chinese social structure into three major social groups: the Proletariat, skilled and semi-skilled wage workers whose income derives basically from wage-labour; the semi-proletariat, unskilled workers in the urban centers that more often than not are migrant workers who spend part or most of their lives in the countryside – the semi-proletariat also normally cannot make a living off of wage-labour only, and therefore must engage in all sorts of petty commodity production and other informal activities to survive; thirdly, there are the “peasants”, agricultural commodity producers (farmers), who also use part of their time to undertake non-agricultural work activities – that is, despite having their own plot of land, they can also derive part of their income from rural industry; finally, the “middle class” comprises all urban highly skilled professionals, technicians and managers. Bearing in mind that many workers under the rubric of “semi-proletariat” live part of their lives as peasants and vice-versa, Minq Li (2008, p. 107) arrived at the conclusion that, still in 1999, peasants amounted to 44% of the working population, while proletarians and semi-proletarians made up only 12% and 28% of the population, respectively. This is substantially less than, say, Brazilian proletarians' share of the total population, which – along their less skilled counterparts – mounted to close to 70% of the population in 1990.

In the last 10 years, Chinese social strata structure has not changed significantly. The Chinese Social Survey Data of 2008¹⁸ revealed that the peasantry number is about 42.8% of China's population, compared with 34.7% of urban blue collars and 22.5% of urban white collars. We cannot properly compare these data with Minq Li's ones. After all, the terms “blue collar” and “white collar” are occupational classifications that distinguish workers who perform manual labour from those who have “professional jobs”. But that doesn't mean necessarily that white-collar are middle-class workers; many are low-paid “professionals” employed in the service sector¹⁹. With this caveat in mind, we can only regret not having more recent Minq Li-like data about the level of proletarianization of Chinese society, for his figures tell us much about the level of capitalist development in a country. We know, nevertheless, that by the end of 2010, the Chinese population of migrant workers – who would fall under the semi-proletariat group – had risen to approximately 260 million.

¹⁸ Made by the Institute of Sociology of the Chinese Academy of Social Sciences.

¹⁹ If you employ the World Bank's definition of middle-class as someone who earns between 10 to 50 dollars a day, around 300 million Chinese people are middle-class.

The existence of one quarter of a billion migrant workers sheds light on how the labour-market is still imperfect/underdeveloped in China. Their free movement into good urban employment opportunities is ever constrained by the continuing existence of the archaic Chinese house-hold registration system (called hukou), that splits up the population into rural and urban residents that enjoy mutually exclusive residential rights and entitlements to land or welfare services, respectively²⁰. That means that if a migrant worker gets sick, he/she must return to the village in which the land of his/her household is registered to have any chance of access to free health care²¹. And it is unnecessary to say that “legal” urban residents have at their disposition much higher-quality welfare services.

It is not hard to see that the hukou system is a type of control of labour flows that discriminates against the rural population. Although cities would be for sure much more over-crowded were it not for the system, it plays perfectly its role of keeping industrial wages low and maintaining a huge income gap between rural and urban residents, estimated at more than 200%. Nonetheless, the system is not “perfect” and we are likely to observe, in the coming years, the greatest proletarianization the world has ever seen. Rather, we are already observing it if one remembers that back in the 1970s the peasantry comprised 80% of China’s population. And, as the share of proletarians approaches that of other “semi-periphery” countries like Brazil, we should expect to see significant wage increases as wage workers amass the necessary political power to fight for better life conditions – and of course, as the supply of unskilled workers dwindles. In a way, we are already observing great wage increases. Despite the fact the wages in China have been increasing nominally at high rates since the beginning of the Reform Era, only more recently real gains have become spectacular. Between 2000 and 2005, for example, real wages grew at an annual average of 13.2%²². And, according to the China Labour Bulletin, the average wage in urban areas in 2009 was 2,687 yuan (approximately 400 dollars), six times higher than the figure for 1995²³.

²⁰ See Wenten (2011, p. 31).

²¹ Also, the migrant worker theoretically cannot enroll his/her children in public urban schools.

²² See Garnaut e Huang (2006, p. 21).

²³ We have, of course, to bear in mind that this is the average salary. Inequality has become a prominent feature of China’s Economy (its Gini index revolves around 0.45 since the last 10 years). In 2005, the top 20 percent of China’s income-earners took home almost 50% of total income. And the bottom 20% were left with only 5% of the total income (see Zheng, 2005, p. 6).

4.3 Social Control of Investment

China is well known for its much above average rates of gross capital formation. It is also common knowledge that much of China's double-digit growth for the last 30 years has been spurred by investment, which has become the backbone of the economy. In effect, investment in China is said to be too high, for the counterpart of high investment rates is a permanent suppression of private household consumption²⁴, which would more closely correspond to people's life conditions than GDP per capita.

Even compared to other East Asian countries in their period of miraculous growth China investment rates are high. No other country has ever surpassed the investment mark of 40% of GDP for such a prolonged time, which China has done since the early 2000s. The CPC's response to the 2008 financial crisis was to exhort companies, particularly SOEs over which it holds direct influence, to spur their investments to even higher rates, which was accomplished with a 586 billion dollar stimulus plan. Total investment reached the mark of 48% of GDP in 2009 and has remained around that level ever since²⁵.

Chinese State-Owned Enterprises have been responsible for most of the increase in investment in recent times. Although state enterprises do not anymore contribute to more than 50% of industrial output – the real figure has been around 30% since 2006²⁶ –, the state is still of paramount importance in the Chinese Economy. First of all, in China equating the non-directly state-controlled sector of the economy with the private sector is problematic, for sometimes boundaries between what is and what is not public are tenuous. When we reported the figure of 30% of industrial activity undertaken by state enterprises, we were referring to companies of which more than 50% of equity is owned by the state. But, in China, "privatization" since the 1990s has more often than not meant the issuing of shares on the stock markets and/or various forms of joint ventures, and not the surrender of control rights – to appoint management, to dispose of assets, to plan strategies – to private agents, even when the state is not the absolute majority holder of assets of the company in question. The economy, it seems, is still

²⁴ Household consumption as a % of GDP has been declining steadily since the early 1990s, reaching a bottom level of 35% in 2009. Only starting from 2011 has consumption as a percentage of GDP begun to increase.

²⁵ See IMF, World Economic Outlook Database, October, 2012.

²⁶ See J. Lee (OCDE), 2009.

enmeshed in party politics, as the Communist Party of China has the power to appoint many of the main executives of key companies, even if not fully-owned by the state.

With that caveat in mind, the MIT economist Yasheng Huang (2008) provides far smaller estimates of the Chinese private sector, as compared with OECD studies, that purport China's economy to be 70% private. In effect, Huang suggests that OECD's assumption that a category of firms known as "legal-person shareholding firms"²⁷ are privately-owned firms is a flawed assumption, as much of the legal-person share of capital originates in the state sector (because SOEs, both national and local, hold significant equity in other firms). This means that even when the government *per se* does not own the majority of assets of a company, it can exert substantial influence on its management through SOEs that own part of the capital of the supposedly non-state company. This way, Huang (2008, p. 16) concludes that the private sector exclusive of "legal-person shareholding firms" would comprise only 40% of industrial revenue, not 70%, meaning that the State would be responsible for almost 50% of total GDP (because in the tertiary sector and agriculture its share would be obviously much smaller).

Even if we believe Huang to be exaggerating the size of the State in the Chinese economy, and consider only the SOEs, the importance of the state enterprises is bigger than the 30% figure might suggest, for they hold quasi-monopolies in the most vital sectors. For example, in 2006, 82% of total assets in the mining industry belonged to SOEs. As for Electricity, Gas and Water, the figure was 87%. What is remarkable, though, is that those figures weren't significantly bigger 10 years earlier²⁸. Mattlin (2009) and Imai (2006) hint at why this is so. They believe all the privatization, corporate laws favouring private activity, downsizing, joint-venturing (etc.) that have been going on since the middle 1990s are part of the CPC's strategy to relinquish direct ownership of firms but not control and influence over the most important actors in the economy. Even though the number of industrial state-owned enterprises declined from 64,700 to 20,300 from 1998 to 2010²⁹, and their proportion in the total number of industrial enterprises fell from 40% to 5%, all the top 30 firms on the China's 500 biggest list are state-controlled. As recently as 2009 less than one fifth of China's top

²⁷ That is, firms of which more than 50% of equity comes from "legal persons", which may be state companies but not the government itself.

²⁸ See J. Lee (OCDE), 2009.

²⁹ Those numbers refer to SOEs administered by the central government. China has today a total of 115,000 state-companies if one includes local and provincial SOEs.

500 were privately-owned and their revenues comprised only 10% of the total³⁰. It becomes visible, then, how most of the “privatization” happened at the provincial and local level, and big international players like Sinopec (oil), China National Petroleum, State Grid Corporation (electric utilities), China Telecom, Bank of China (etc.), remain under the firm grip of the State. Just for curiosity’s sake, the telecom equipment Huawei, the largest Chinese private enterprise, generates only one tenth as much revenue as Sinopec (the largest state enterprise) does: 1.969 trillion yuans against 185 billion yuans in 2010.

It remains to be said that the influence of the State on the Chinese economy goes much beyond its ownership of assets. According to Bardhan (2010), government policy still discriminates against indigenous private entrepreneurs in matters of finance, market access and regulatory approvals. Due to imperfect private property rights over assets like land and other types of infrastructure, for years the relationship between private businesses and the state has been rather clientelistic. In their study, Li et al. (2008) found evidence that Party membership helps private businessmen obtain loans, improve firm performance and obtain more confidence in general in the operation of the legal system. As a matter of fact, the state’s role in regulating the private sector goes far beyond the usual functions in other countries – be it in bargaining the terms of foreign investment, negotiating prices of imported goods, channeling finance to favored sectors – not to mention that the State owns 80% of bank assets³¹ – overseeing consolidation and merger of firms, etc. The listing of shares in China’s stock exchanges is also subject to government approval, namely, to the China Securities Regulatory Commission, that repeatedly favours SOEs: 80% of the listed companies are under government control. Lastly, it should be noted that the five largest banks in China are all state-controlled, and together they account for around one half of the Chinese banking system assets and deposits. As the majority of domestic credit – which is estimated to be equivalent to 145% of GDP³², a high ratio for China’s development level – is channeled by the state-owned banks (as other forms of funding sources are underdeveloped in China, equity market capitalization being equivalent to only 30-40% of GDP), one can conclude that the State

³⁰ However, we saw previously that in 2012 private-owned firms already made up more than a third of the top 500, an impressive change.

³¹ And the vast majority of companies’ credit comes from State Banks loans (see Bardhan, 2010, chapter 5).

³² See Turner et. al. (2012).

wields great power over the allocation of resources in the Chinese economy; in other words, there is quite significant “social control of investment”.

To conclude with, over the last years the government has actually strengthened its financial control over the biggest and most strategic companies. In 2003 it created SASAC (State-owned Assets Supervision and Administration Commission), a special commission directly under the State Council that exercises ownership rights of state enterprises on behalf of the government, including appointing managers, executives, and approving mergers and sales of assets. SASAC in effect unified state’s ownership representation, thus facilitating government control over SOEs. By stipulating strict demarcations on which industries the government considers strategic, it made it clear that around 40 SOEs will be indefinitely off-limits to private or foreign control. Not surprisingly, those 40 huge enterprises make most of the profits of the state sector: the five state-owned banks alone are responsible for almost a quarter of all state enterprises’ profits and the three oil giants for just more than 10%. In Mattlin words (2009, p. 24): “by controlling tightly a small fraction of all SOEs, the state can maintain disproportionate control over profits, investments and the national economy, thus enabling it to let go of many small SOEs without sacrificing much control”.

5. Concluding Remarks

China has come a long way since the days of the Command Economy. Markets operate competitively in most sectors and labour is very much commodified, despite imperfections in labour flows between the countryside and urban centers. Nonetheless, China is not yet fully a capitalist economy and it does not necessarily follow that it will ever be. China is different; it is “Socialist with Chinese Characteristics”, as the CPC would have it. It is not yet a full-fledged capitalist economy due to the incomplete proletarianization of its work force, still largely composed of peasants; though that may soon not be true anymore. But if one would elect one single criterion under which China is not capitalist it would be in its management of capital. As we saw, the State still holds direct or indirect control over the larger share of loans and investments in the economy. In other words, although China is no longer a planned economy, the State still wields great power through the allocation of massive state resources and control of large and highly profitable SOEs, which dominate key sectors of the economy. Finally, it might

be argued that the internal dynamics of capitalism – where it really counts, in the large companies – is actually missing, for the fact that control rights of the most important companies remain with the state, which may have other goals than profit-making. In other words, major companies suffer potentially arbitrarily political influence, which is in contradiction to the very logic of modern markets. We answer the question with which we named this article stating that China may become a capitalist economy, but it has still not traversed completely the road to capitalism, that is, of course, if it chooses to.

BIBLIOGRAPHY

ARRIGHI, Giovanni. *Adam Smith in Beijing: lineages of the twenty-first century*. London: Verso, 2007.

ARRIGHI, Giovanni. *The Long Twentieth Century: money, power and the origins of our times*. London: Verso, 1994.

BARDHAN, Pranab. *Awakening Giants, Feet of Clay: assessing the economic rise of China and India*. Princeton: Princeton University Press, 2010.

BRAUDEL, Fernand. *The Wheels of Commerce*. New York: Harper and Row, 1982.

FRIEDMAN, Milton. *Capitalism and Freedom*. Chicago: University of Chicago Press, 1962.

GARNAUT, Ross; HUANG, Yiping. Continued rapid growth and the turning point in China's development. In: GARNAUT, Ross; SONG, Ligang (eds.). *The Turning Point in China's Development*. Canberra: ANU E Press and Asia Pacific Press, 2006.

H, Scott (2003). "The Definition of Capitalism – a letter to friends". *A Marxist Political Economy Site*. Access online: www.massline.org/Politics.

HUANG, Yasheng. *Capitalism with Chinese Characteristics: entrepreneurship and the State*. Cambridge: Cambridge University Press, 2008.

HUNT, E. K. *History of Economic Thought: a critical perspective*. New York: M. E. Sharpe, 2002.

IMAI, Ken (2006). "Explaining the persistence of state-ownership in China". *Discussion Paper No. 64*, Institute of Developing Economies, Japan External Trade Organization (IDE-JETRO).

LEE, J. "State-owned enterprises in China: reviewing the evidence". Occasional Paper, OECD, January 26, 2009.

- LI, H.; MENG, L; WANG, Q.; ZHOU, L. A. (2008). "Political Connections, Financing and Firm Performance: evidence from Chinese Private Firms". *Journal of Development Economics*, 87 (2): 283-299.
- LI, Minqi. *The Rise of China and the Demise of the Capitalist World-Order*. London: Pluto Press, 2008.
- MATTLIN, Mikael (2009). "China strategic State-owned enterprises and ownership control". *BICCS Asia Paper*, Vol. 4 (6): 1-28.
- NAUGHTON, Barry. *The Chinese Economy: transitions and growth*. Cambridge: MIT Press, 2007.
- NORTH, Douglass. "Institutions". *The Journal of Economic Perspectives*, Vol. 5, N. 1, 1991.
- ROBINSON, William I (2009). "Globalization and the Sociology of Immanuel Wallerstein: a critical appraisal". *Sociological Analysis*, 3: 75-95.
- SCHWEICKART, David (2005). "You can't get there from here: reflections on the Beijing Consensus". *Paper for the International Symposium on China Model or Beijing Consensus for Development*. Tianjin Normal University, Tianjin, China, August 8th. Access online: <http://homepages.luc.edu/~dschwei/beijingconsensus.htm#3>.
- SCHWEICKART, David. *After Capitalism*. Lanham: Rowman and Littlefield, 2002.
- SMITH, Adam (1776). *An Inquiry into the Nature and Causes of the Wealth of Nations*, 2 volumes. London: Methuen, 1961.
- TURNER, Grant; TAN, Nicholas; SADEGHIAN, Dena. "The Chinese Banking System". *Reserve Bank of Australia Bulletin*, September Quarter, 2012.
- WALLERSTEIN, Immanuel. *The Modern World System, Vol. 1: capitalist agriculture and the origins of the European World-Economy in the sixteenth century*. New York: Academic Press, 1974.
- WANG, Shaoguang (1994). "The compatibility of public ownership and the market economy: a great debate in China". *World Affairs*, Vol. 157, N. 1: 38-49.
- WEBER, Max (1905). *The Protestant Ethic and the Spirit of Capitalism*. New York: Courier Dover Publications, 2003.
- WENTEN, Frido. Restructured class relations since 1978. In: SCHERRER, Christoph (ed.). *China's Labour Question*. München: Reiner Hampp Verlag, 2011.
- ZHENG, Y. (2005) "The new policy initiatives in China's 11th Five-Year Plan". Beijing: China Policy Institute.

DATABASES

China Enterprise Confederation & China Enterprise Directors Association. Access online: http://www.cec-ceda.org.cn/english_version/.

Institute of Sociology of the Chinese Academy of Social Sciences. Access online: <http://www.cs-en.cass.cn/news/522416.htm>.

China Labour Bulletin. Access online: <http://www.clb.org.hk/en/research-reports>.

IMF, World Economic Outlook, October, 2012. Access online: <http://www.imf.org/external/pubs/ft/weo/2012/02/weodata/index.aspx>.