

# State Capitalism is a Lie: China is Thriving Because of the Private Sector

A working paper from the World Economic Forum released earlier this year [stated](#):

*China's private sector – which has been revving up since the global financial crisis – is now serving as the main driver of China's economic growth. The combination of numbers 60/70/80/90 are frequently used to describe the private sector's contribution to the Chinese economy: they contribute 60% of China's GDP, and are responsible for 70% of innovation, 80% of urban employment and provide 90% of new jobs. Private wealth is also responsible for 70% of investment and 90% of exports.*

Today, China's private sector contributes nearly two-thirds of the country's growth and nine-tenths of new jobs, according to the All-China Federation of Industry and Commerce, an official business group.

## “State Capitalism” Is A Misleading Term

These figures should cause anyone who cites China's economic miracle as evidence of the superiority of “state capitalism” to stop and think again. “State capitalism” is such an absurd term, anyway. Capitalism is based on the twin pillars of free-market principles and private enterprise. Capitalism is incompatible with a state economy in which companies are state-owned and planning authorities determine what is produced.

Therefore, there can be no such thing as “state capitalism.” In truth, China is a mixed system that combines capitalism and [socialism](#) – just like every other country in the world. This is equally true of the United States and European countries, all of which blend – in different proportions – capitalist and socialist elements in their economic systems.

The key factor is how the ratio of these two components shifts over time. Rather than being the reason for China’s economic miracle, the fact that the guiding hand of the state is still so strong is simply that it has only been four decades since China was a pure state economy. As the Chinese economist Zhang Weiying writes in his book *The Logic of the Market*:

*China’s reform started with an all-powerful government under the planned economy. The reason China could have sustained economic growth during the process of reform was <sup>[that]</sup> the government managed less and the proportion of state-owned enterprises decreased, not the other way around. It was precisely the relaxation of government control that brought about market prices, sole proprietorships, town and village enterprises, private enterprises, foreign enterprises, and other non-state-owned entities.*

## Why the “China Model School” Is Wrong

Since the launch of Deng Xiaoping’s economic reforms, China has been constantly fighting what Mao Zedong called the “two-line struggle.” Mao was referring to the struggle between the socialist and the capitalist line. Over the past few decades, China has alternately been dominated by pro-capitalists keen to push on with the reform agenda and anti-capitalists striving to roll back the tide.

These opponents also exert influence at some of the country’s

leading universities. Last year, Zhou Xincheng, a professor of Marxism at Renmin University in Beijing, declared that private ownership should be eliminated. Fortunately, such radical demands have little to no chance of success.

Nevertheless, in recent years a dangerous interpretation of China's economic success has been gaining ground across the country, including in political circles. Zhang Weiying calls this interpretation the "China Model School." According to this theory, China's success over the past decades is the product of its own unique system, which allowed China to achieve in just a few decades what it took the West 200 years to accomplish.

According to Zhang Weiying, this interpretation is entirely mistaken. In fact, he is convinced that China's rapid economic growth over the last 40 years is the result of its "late-comer advantage." As Zhang Weiying explains,

*The West constructed the road; China just followed it. That China walked faster does not mean that its institutions are superior.*

The reason for China's economic success is not that it has a planned economy, but quite the opposite. Under Mao, when there were hardly any private enterprises in China and the state-run, planned economy prevailed, 88 percent of the Chinese population lived in extreme poverty. This figure has fallen below one percent not because of a uniquely Chinese "third way" between capitalism and communism, but because China introduced private property rights, and the once omnipotent role of the state was successively pushed back.

The interpretation proffered by socialist politicians, including British Labour Party leader Jeremy Corbyn, is particularly absurd. They claim that China's economic success story demonstrates the superiority of socialism over capitalism. The opposite is actually true. China's recent

history can be divided into two phases: the socialist phase, from the founding of the People's Republic in 1949 to Mao's death in 1976, which was a total economic disaster; after Mao's death, Deng Xiaoping initiated market economy reforms, which marked the beginnings of China's economic miracle.

## **The Reasons for China's Success Are Often Not Understood**

Many supporters of democracy and capitalism in the West see China as a dangerous role model. "The debate on whether democracy and market capitalism are prerequisites for economic growth has taken a new urgency now that people around the world see a credible alternative challenging Western economic and political ideology," writes Dambisa Moyo in her book *Edge of Chaos: Why Democracy is Failing to Deliver Economic Growth—and How to Fix It*. She continues:

*Many prefer the economic and political approach of China, a model of state capitalism in which the state steers production and economy.*

It is undoubtedly true that more and more people, especially in emerging economies, see China's "third way" between capitalism and communism as a valid economic alternative. And such ideas are striking a chord not only in emerging economies but in Europe, too. Germany's economics minister, Peter Altmaier, justified his call for more state intervention in the economy by saying it was the only way for Germany to hold its own against the Chinese state economy.

The basis of all these ideas, however, is a misinterpretation of the driving forces behind the Chinese economic miracle, which in turn demonstrates the superiority of private ownership and the free market economy over state ownership and the planned economy.

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