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"The success of China shows that  
democracy and capitalism are not  
the only routes to success" Discuss.

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## I. Introduction

In the recent decades, the conventional wisdom has held that with capitalism, comes democracy and vice versa. However, as the successes of these two ideologies diverge (Reich, 2009) and as some begin to argue that capitalism is destroying democracy (Kuttner, 2018), we quickly see that philosophies are not as related as they first appeared. This, ultimately, demonstrates the integral idea, as suggested by the title itself, that we must analyse their respective influence on the beginning of China's success separate from one another.

As a general case, China's path to 'success' began with the Third Plenum of the 11<sup>th</sup> Central Committee, signalling the beginning of *Reform and Opening Up*. This laid the foundations for the sustainable growth that we have seen since the 1980s, in contrast to the turbulent trajectory during the Maoist period. However, the issue over whether capitalism has provided a route to success lies in whether Chinese economic policy demonstrated an example of *state capitalism* similar to that proposed in Lenin's New Economic Policy (NEP) or Deng's intended *socialist market economy with Chinese characteristics*.

Finally, the issue regarding democracy in the rise of China: under most guidelines, China is not a democratic nation and throughout their route to success have remained undemocratic. While the Chinese government insist that they operate as one, the lack of free and fair elections, freedom of speech and media, among other elements suggest otherwise. This stems back from the era of Mao and Deng, both of whom insisted that the Communist Party must stay in power. It is easy, therefore, to fall into the trap of quickly assuming that democracy has played no role in China's development. While this essay goes with the general consensus that democracy is not the only route to success, it seeks to also consider Nathan's (1985) *Chinese Democracy* to support this argument. As a precursor before any further investigation, we must remember that we are considering China's success today and how they have gotten to where they are now.

## II. Capitalism: Market Socialism or State Capitalism?

It is important, before any further analysis into China's Economic Policy since the 1980s, that an understanding of the contrast between market socialism and state capitalism is made. Not all elements are initially included, which may be at a later stage; however, in doing so, we are able to take a more general view of the two economic systems, enabling us, later, to determine whether capitalism has provided a 'route to success'. State capitalism, ultimately, suggests an economic system encompassing all aspects of a typical capitalist country, apart from a large role played by the state. In contrast, Deng's *socialist market economy*, coined in 1993, involves an 'economy [that] is market-oriented and market-driven for growth [...] for a socialist purpose' (Huang, 2012) – such a system has many elements identical to that of a capitalist economy<sup>1</sup>.

There are two main issues in deeming the Chinese Reformist economic model an example of market socialism. Firstly, there is the problem that the economy was not run for 'a socialist purpose'. Overall, throughout the period of reform, the state collected very little, or in some cases, no dividends from state-owned enterprises to redistribute to the general population. This is arguably one of the most central features that differentiates between market socialism and state capitalism. Following reforms on SOEs in the 1980s and 90s, in theoretical terms, the state was entitled to collect all after-tax profits. However, history shows that it was a rare occurrence. Only in 2007 did the State Council require SOEs under the authority of the State-Owned Assets Supervision and Administration Commission (SASACs) to pay dividends from 0% 10%. This was

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<sup>1</sup> As a whole, many different ideologies, often involving differences in how terms are defined can be utilized to provide justification for whether China's economic model is an example of market socialism or whether it is a demonstration of state capitalism. Examples range from Marxism criticism to James Meade's more contemporary interpretations of 'liberal socialism' (See Cui, 2012). Such discussion may lead to exploration into, for example, the empowerment of the working-class (See Fabbri, 2006), delving into many other fields; however, this essay, focusing more heavily on Economics, opts to omit any further investigation.

then increased in 2011, where SOEs were required to pay dividends from 5% to 15% (Milhaupt, 2015). However, research shows that average dividends paid by SOEs across five other developed economies (specifically, New Zealand, Norway, Sweden, Finland and France) averaged to 33%; furthermore, dividends by Chinese SOEs listed in Hong Kong paid to private shareholders by SOEs was greater than that paid government<sup>2</sup>. Most consequentially of all, 92% of all dividends paid to government took the form of subsidies, which were remitted back to SOEs (Foley, 2013). The data above suggests that the behaviour of the Chinese economic system had fit a state capitalistic model to a greater extent.

The latter of two issues when comparing Reformist China’s economic system to a market socialism model revolves around the idea of ownership. To many previous thinkers, namely Lange and Lerner, state ownership of the means of production is pivotal in market socialism. To that end, the existence of China’s financial market is enough to justify the role of capitalism in their development. However, the use of capital markets may not provide full justification. After all, capital markets may be used to allocate capital between firms in a market economy. Indeed, sceptics of this argument argue that the Chinese stock markets have been dominated by state-owned companies since the beginning, fitting a market socialism model. However, an increasing number of shares of state-owned companies were being issued to private investors. This led to the general consensus, maintaining that the Chinese economy fitted a state capitalism model. To go further, proponents of this idea cited that eventually, the dominant form of ownership would shift to private investors (Xu and Du, 2005).

Upon further analysis of the interactions between financial development and growth, we see that the Chinese model of the economy on their ‘route to success’ seems to fit a capitalistic model.

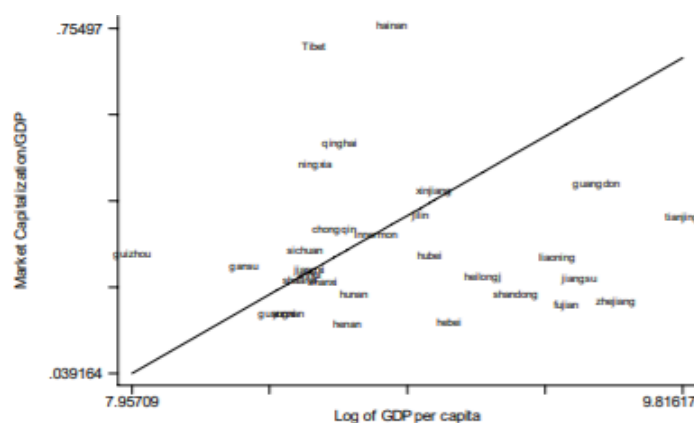


Figure 1: A Provincial Analysis of Market Capitalisation/GDP and GDP per capita (Xu and Du, 2005)

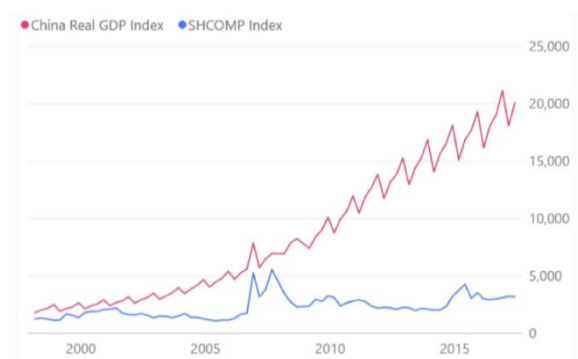


Figure 2: China Real GDP Index vs. Shanghai Composite Index (Pham, 2018)

<sup>2</sup> Ibid.

Comparing the data in Figures 1 and 2, we are able to come to this conclusion. In Figure 1, we see a positive correlation between the performance of financial markets in the individual provinces and their economic performance. There are many transmission mechanisms which explain this causality. However, to provide an example, it is said that financial markets are able to reduce the costs of raising funds as outsiders have imperfect information regarding the performance of firms and are unsure over what borrowers will do with funds (Rajan and Zingales, 1998). This mechanism is symptomatic of a capitalist system. However, in Figure 2, we begin to see that there is a strong divergence between the Shanghai Composite and the real GDP of China (following approximately 2005), possibly as a response to deleverage China's debt-burdened SOEs (Rutkowski, 2015). Regardless, the contrast between the role of financial markets between the two periods of time justifies the role of capitalism in the development of China.

This section ends by considering the opinions of those who liken China's Reformist economic system to Lenin's New Economic Policy (NEP) in Soviet Russia. Following the Russian Civil War, the Soviets transitioned to a more market-oriented economy. The reforms made had similarities. For example, the NEP's introduction of small enterprises for private individuals reflects decreasing state ownership within the Chinese economy. More significantly, the two economies mirrored one another in terms of their respective position in the world economy. China found itself to be dominated by powerful capitalist economies as the Soviets did following the Russian Civil War. Proponents of this, therefore, argue that as China is in the 'primary stage of socialism', this constitutes socialism. However, this is flawed. Regardless of what an economy seeks to achieve in the long term, state capitalism, albeit capitalism in a different form, is still capitalism in the same way that, Lenin considered the NEP a retreat from socialism.

### III. Democracy

To this date, China remains one of the most undemocratic societies in the world. To put this in perspective, out of the 167 countries surveyed per year, the Chinese are tied with Belarus as the 138<sup>th</sup> most democratic. The Economist, using information regarding the pluralism of a society and the civil liberties of the people among other factors, scores China 3.13 out of 10<sup>3</sup> and, indeed, the Chinese Communist Party have remained 'stubbornly' so throughout the past decade (see Figure 3). While the indicator stretches back only to 2006, it is unnecessary to analyse in great detail the evolution of democracy in China. One only needs to refer to events such as the *Tiananmen Incident* or the consequences faced by *Wei Jingsheng*, following his essay 'The Fifth Modernization' being posted on the Democracy Wall.

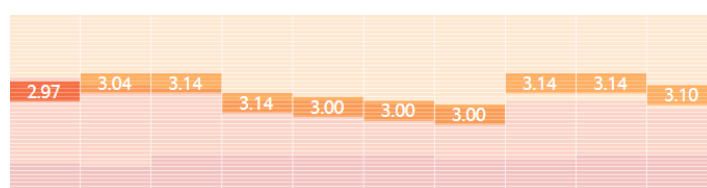


Figure 3: China's Democracy Index – beginning 2006 (*The Economist*)

Naturally, it is easy to come to the conclusion that democracy is not required for the success that China now emulates; however, ideas regarding different 'forms' of democracy also add to discussion. The term 'democracy' itself can have many different meanings in different societies; most notably, work by the American political scientist Nathan (1985) suggested that Chinese democracy did not correspond to the American or Western ideal of free elections or pluralist governments but, rather, 'rule of law'. Incidentally, however, 'rule of law', in contrast to 'rule of man', is often cited as a key element of Western democracies (Diamond, 2004). Given this, if

<sup>3</sup> See <[https://en.wikipedia.org/wiki/Democracy\\_Index](https://en.wikipedia.org/wiki/Democracy_Index)> for more information on the Democracy Index

Chinese governments subscribe to such a belief, we can assume that democracy, albeit different from our Western-did indeed play a role in the success of China.

Many would argue that ‘rule of law’ does not necessarily lead to the success of China – this is, of course, true. However, even before we attempt to justify such a conclusion, let us question, more generally, the existence of ‘rule of law’ in China. Before we process down this line of thought, we must consider what ‘rule of law’ means – ‘rule of law’ refers to the influence and authority of law in society on all individuals (including those in government). While in theory the ‘rule of law’ is established in China’s Constitution (Article 35), this idea is rarely practised by the CCP itself. The People’s Court in China does not have judiciary independence but, instead, answers to the People’s Assembly. In such a way, we can think of the state as above the judicial system and, therefore, there is an absence of ‘rule of law’. In this way, we see that even when considering so-called ‘Chinese Democracy’ in the form of ‘rule of law’, there is little that demonstrates that democracy is required for the success we see in China today.

#### **IV. Conclusion**

Given the straightforward manner in which this essay has come to the conclusion that China’s success only justifies that capitalism is the only route to success, while democracy is not, this essay chooses to close on two ideas. Firstly, one which runs through the essay, at each point of discussion throughout the essay, while we come to a conclusion, it is worth noting that it is often done so through establishing an Asian ideology through Western means. For instance, we have regarded state capitalism as capitalism. Depending on the view of the reader, this may or may not be problematic; however, the idea that must be understood is that as cultures differ, so do the associations we make regarding different ideologies – Chinese democracy (although not implemented well) is very different from Western democracy.

More significant, however, is the second idea. In August 2010, Chongqing Province took advantage of profits made by state-owned firms, significantly adding to provincial finance. This led to improved equity and benefits for many citizens<sup>4</sup> (See Huang, 2012; Cui, 2012) and acts as a sign of greater social equity and possible socialism to come. The success of China today, often in the form of miracle GDP growth rates or general higher standards of living, reflects the role that (state) capitalism has played in their success; however, we must think of China’s economy as one that is constantly changing, in which their future’s success shows that socialism and democracy are the only routes.

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<sup>4</sup> See Profit-Making State Firms and China’s Development Experience: “State Capitalism” or “Socialist Market Economy”?



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