

Emma Short

“The success of China shows that democracy and capitalism are not the only routes to success”

Discuss.

Democracy and capitalism were said to be the end of history¹. In the aftermath of the Cold War, many were disillusioned with centralised economic and political power, as it had failed to match the prosperity of more liberal systems. Planned economies trailed far behind market economies. Text-book theory attempted to explain this: devolving power to the level of the voter or consumer meant that individuals could express their preferences, and resources were allocated more efficiently as a result. There was no asymmetry of information between the state and the people. Thus, the “success” of democracy and capitalism meant that the ideological battle had been won. We would now enter a post-historical world, in which there were no viable alternatives to liberal democratic and capitalist systems.

The *End of History* was incorrect on a number of counts. Most noticeably, it did not anticipate the rise of China. Francis Fukuyama accounted for China’s development with the economic liberalisation during the Deng era. Property rights had been gradually introduced in the form of land grants, and the population was able to engage in market activity. It was moving towards capitalism. With more economic freedom, demands for political freedom would surely follow.

China took a different route in world history. At present, it shows little sign of wanting to democratise. Accompanying continued economic liberalisation, the Chinese Communist Party (CCP) has consolidated power. Term limits have been abolished. Dissenters are increasingly persecuted. Xi Jinping has enshrined his *Thought* into the constitution, an action which resembles the rule of Mao Zedong. However, China’s authoritarian government has not inhibited economic growth, as text-book theory would predict. Alongside the CCP’s concentration of power, China has become the second-biggest economy in the world. Many predict that it will overtake the US in the near future. While Western democracies are experiencing stagnation and civil discontent, visible in near-zero growth rates and populist politics, China is dynamic. Its route to success bears little resemblance to that taken by the West. Therefore, there *does* exist a viable alternative to democracy and capitalism. This is represented by China.

Does this imply that the statement is correct? This is not as straight forward as it would appear.

I will consider two objections to the statement. First, many assert that China is a capitalist country. Thus, China cannot be used to disprove idea that capitalism is the only route to success, for it is capitalist itself. Its economy bears such little relation to the socialist economy envisioned by Marx that its commitment to Marxist-Leninism no longer has any meaning. Therefore, I conclude that China is capitalist. Yet, I will argue that this is dependent on how one defines capitalism and where the boundaries are placed. The Chinese system, which I will define as state capitalism, is sufficiently different from the capitalism we recognise, that it represents a new route in world history.

¹ Fukuyama, F. (1989). *The end of history?* Washington, D.C.: National Affairs.

Emma Short

The second objection surrounds the definition of “success”. It is true that China has seen unprecedented economic growth, and its GDP at PPP is now far greater than that of the US. But does this constitute success? I will argue that our criteria of success should be widened. Economic theory often fails to account for the true conditions in a country. GDP may be growing, but this does not imply that the population is becoming any richer. It also does not account for *who* is becoming richer. As a blanket measure, GDP does not reveal the distribution of wealth. Nor does it reference sustainability. Can a country be “successful”, if it is greatly unequal and its model unsustainable? Moreover, it is a mistake to consider “success” in purely economic terms. What constitutes success is a moral question. Civic freedoms, such as human rights, could be considered forms of success in themselves.

Chinese state capitalism

Capitalism is commonly defined as the private ownership of the means of production. It can be recognised by a variety of qualities, such as by commercial economic activity, and the allocation of resources via the law of supply and demand. Under this umbrella definition, China has a capitalist economic system.

But this misses the point. Chinese capitalism is unlike any form of capitalism witnessed in the past. If we consider capitalism as a broad umbrella term, and do not recognise the nuance, we fail to recognise the vast disparity between Chinese and Western systems. Therefore, we overlook how China has taken a different route from the West, and fail to recognise it as a meaningful alternative to western liberalism, when it should be considered as such. A distinction between the different forms of capitalism must be made.

State capitalism is fundamentally different to free-market capitalism. The Chinese system is the former, while the West has historically been the latter. Although obvious, the crucial difference between the two is the varying role of the state. Free-market capitalism depends on limited state intervention. In order for a market to be “free”, consumers must be free to choose how they spend, and producers must have freedom to respond to consumer demand. This requires limited regulation, which could otherwise constrain the demand and/or supply side of the economy. Price controls, for example, would prevent an equilibrium of price and quantity from being reached. Markets have never been completely free. It is unclear whether this is possible, especially while the state controls the supply of labour (via immigration policy) and interest rates, and thus also prices². It is also unclear that this system is in any form desirable. Market failures, such as negative externalities, seem to require some form of state intervention. However, free-market capitalism remains the dominant system in the West, with state interference often condemned as damaging to growth and efficiency.

Where free-market capitalism requires limited state intervention, state capitalism requires *total* state intervention. In a state-capitalist system, the means of production are controlled by state-owned business enterprises (SOEs). The state, in the form of SOEs, engages in “for-profit” activity within markets. This has been called the “visible hand”³. An analogy can be drawn with a large-scale monopoly, with the state acting

² Chang, H. (2010). 23 things they don't tell you about capitalism. Penguin Books.

³ The visible hand. (2012, January 21). Retrieved from <https://www.economist.com/node/21542931>

Emma Short

as one huge corporation, essentially in control of all others. This is the case in China. The central government owns around a third of all enterprises, while local governments own most of the remainder. China's largest companies are state-owned; Sinopec Group, for example, is Asia's largest oil refiner and a SOE. The activity of SOEs abroad, and that of foreign enterprises in China, is heavily regulated by the state. Foreign investment restrictions greatly limit access to China's economy.

A definition of "success"

Some claim that state capitalism is preferable to free-market capitalism, and that others should follow the route taken by China. This belief is based upon China's "success story". But has China really experienced success? This depends entirely on how success is defined. In economics, success is rarely mentioned without reference to GDP. A country is considered "successful" if it has a large GDP; the US, with the largest GDP, is heralded as the most successful country in the world. GDP growth rates are also seen as important conditions of success, as China's 6% rate is envied by countries around the world. This is connected to the political influence which is afforded by a large economy. China's size has enabled them to become a dominant global force, with respects to both militaristic power and diplomacy.

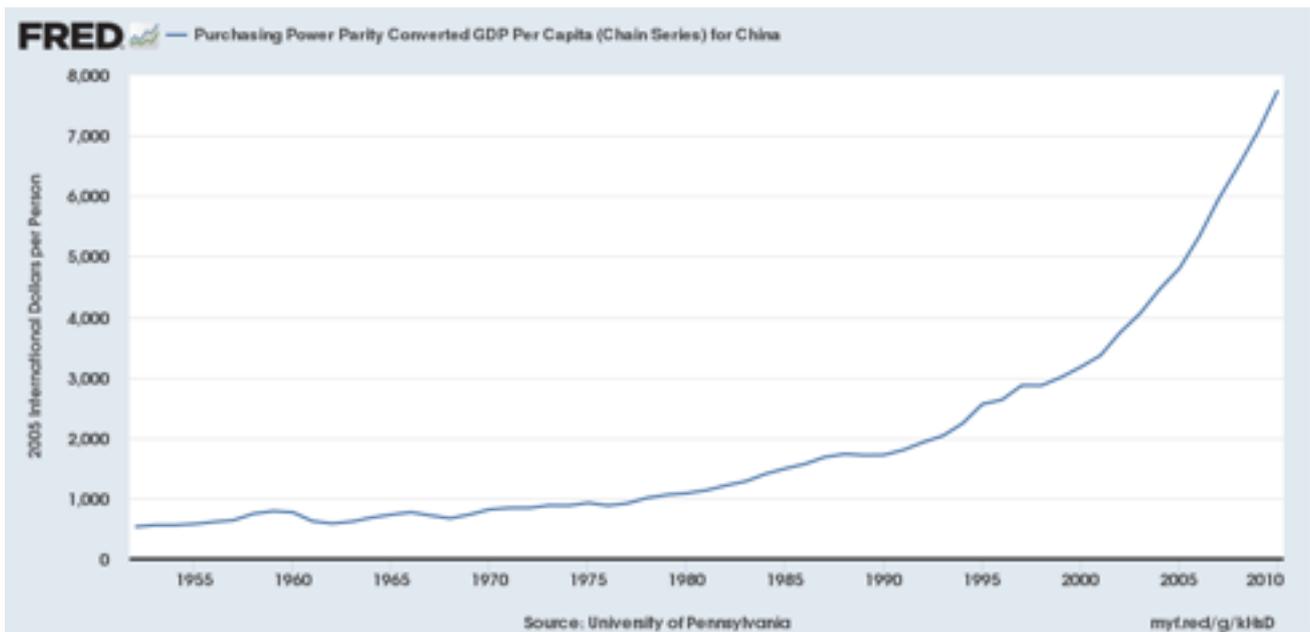
However, GDP is an arbitrary measure which does not bear much relation to the individual. It is reasonable to say that "success" should relate to individual experience rather than the economy as an aggregate (however, this is a moral assumption which can be challenged). GDP can be adjusted to better represent the welfare of the population, for example by converting it to per capita at PPP. Using this measure, China has indeed experienced success over the previous decades (see **figure 1**)⁴. The per capita adjustment means that individual Chinese citizens have seen their wealth improve since the 1950s (in particular since 1985). Adjusting GDP for PPP conveys what the wealth means for individuals; in other words, what they can afford.

This doesn't entirely represent the welfare of the individual, however. Rising income inequality in China, for example, is not considered. This would have an effect on individual experience, perhaps negatively as society becomes more unequal and social tensions heighten. As a snapshot measure of the economy, GDP (however adjusted) does not reveal sustainability. Many claim that China's high rate of growth cannot be sustained. This could be because its economy is transitioning to the cutting edge of development; others claim that its high level of business and infrastructure investment is not sustainable. Photographs of vast yet abandoned buildings in Chinese cities are testament to this.

However, there are measures of success which extend beyond what is usually considered in economics. These are concerned with broader institutions, such as political freedom and human rights. When considered in this way, China is not successful. This is due to the high levels of repression by the CCP. In order to maintain their monopoly on power, the CCP conducts mass surveillance, which infringes on the rights of the

⁴ University of Pennsylvania, Purchasing Power Parity Converted GDP Per Capita (Chain Series) for China [RGDPC2CNA625NUPN], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/RGDPC2CNA625NUPN>

Figure 1 — GDP per capita of China at PPP



individual. Minorities are repressed, as witnessed in the Xinjiang province with the persecution of Uighurs, who must undergo political “reeducation” to change their beliefs. Is it right to consider a country which denies its population fundamental rights, such as free expression and belief, as successful? This is a moral question which cannot be answered by economics alone.

Conclusion

The world in 2018 is vastly different to how it was in 1989, when Fukuyama wrote the *End of History*. The challenges now faced by liberal democratic and capitalist countries, accompanied by the rise of alternative systems, means that our outlook must be more pluralist. China represents one of many alternative routes. Its state-capitalist system greatly differs from the free-market approach of the West. Moreover, China equals or exceeds most Western countries with regards to global dominance and rates of GDP growth. If this is what constitutes success, autocratic governance and state capitalism can be considered a viable alternative route to that taken by the West. But success should not be confined to these criteria. There should be greater focus on the welfare of the individual, and this should not be merely economic. While individual wealth has increased in China, political freedoms have not. These freedoms are negated by the authoritarian regime. It is for this reason that China cannot rival the “success” of countries with more liberal systems, which actively promote the rights of their people.

Word count: 1774