



# Alternative Models of Development for Developing Countries

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## Principles of Publication

At a time when US ambitions for a unipolar world order have lost their appeal, a new order is taking shape thanks to the multipolarization of world politics and the acceleration of cooperation between developing countries, rejecting the globalism of imperialist states. Under these conditions, the new agenda of global cooperation should respond to the needs and aspirations of developing countries seeking joint development and solidarity under the guidance of public-driven projects. In particular, the Belt and Road Initiative (BRI) -put forward in 2013 by Xi Jinping, President of the People's Republic of China- provides a suitable opportunity and a sound foundation for the implementation of this new agenda of global cooperation.

BRI is an epoch-making move to re-implement the concept of the Silk Road, which dates back 2,000 years, to a time when China was immensely contributing to global prosperity and the development of trade and cooperation. The revival of this concept entails a much more comprehensive approach that also incorporates rail and sea transport, and digital systems.

BRI proposes to bring together over 60 countries across Asia, Europe, Africa, and Latin America –together accounting for nearly half of the world's gross domestic product– for prosperity and development at the initiative of China. Unlike the Western-centered world order, BRI seeks peaceful collaboration for improving global trade and production towards common goals for humanity. It firmly rejects crude imperialist exploitation. Two thousand years ago, the Silk Road was a conduit for the flow of gunpowder, spices, silk, compasses and paper to the world. Today, it offers artificial intelligence, quantum computers, new energy and material technologies, and space-age visions to developing countries. In addition, the New Silk Road provides incentives and opportunities for the development and implementation of bio-economic schemes in stakeholder countries against the threat of climate change and other environmental threats that bring the entire ecosystem to the brink of extinction.

Turkey has a significant role –real and potential– in accelerating South-South cooperation. Turkey is conveniently located as Asia's farthest outpost to the West. It assumes a critical position as a pivotal country on BRI's North-South and East-West axes. However, China's development and BRI's contribution to the future of humanity have remained to a large extent underrecognized and superficially evaluated in Turkish academia, media, and politics. This is mainly because Turkey's academics, media professionals, and policy makers have been observing China using Western sources. In the same manner, China and BRI's other potential partners have been viewing Turkey through a Western lens.

BRIQ has committed itself to developing an in-depth understanding of the present era, with a particular emphasis on the new opportunities and obstacles on the road to the New Asian Century.

BRIQ assumes the task of providing direct exchange of views and information among Chinese and Turkish academics, intellectuals, and policy makers. In the meantime, this journal will serve as a platform to bring together the intellectual accumulation of the whole world, especially developing countries, on the basis of the Belt and Road Initiative, which presents a historic opportunity for the common future of humanity.

BRIQ is also devoted to publishing research and other intellectual contributions that underline the transformative power of public-driven economies, where popular interests are upheld as the basic principle, ahead of individual profit. The fundamental tasks of BRIQ are to demonstrate how BRI can contribute to the implementation of this public-driven model, and to help potential BRI partners -including Turkey- to realize their real potential.

BRIQ stands for the unity of humanity and a fair world order. It will therefore be a publication for the world's distinguished intellectuals, especially those from Eurasia, Africa, and the Americas: the defenders of a new civilization rising from Asia on the basis of peace, fraternity, cooperation, prosperity, social benefit and common development.



## Submission Guidelines

BRIQ features a broad range of content, from academic articles to book reviews, review essays, interviews, news reports, and feature articles.

The Editorial Board can issue calls for papers for special issues and invite authors to contribute manuscripts; however, it also welcomes unsolicited submissions.

Submissions are invited in English or Turkish. All submissions are to include a short biography (150-word limit) and should be sent as Microsoft Word attachments to briq@briqjournal.com. Articles or other content that have been previously published or are under review by other journals will not be considered for publication.

BRIQ follows American Psychology Association (APA) style, 6<sup>th</sup> edition, <https://www.apastyle.org> and uses American English spelling.

BRIQ applies a double-blind review process for all academic articles.

Academic articles should be between 5000 and 9000 words in length, including abstracts, notes, references, and all other content. Please supply a cover page that includes complete author information, and a fully anonymized manuscript that also contains an abstract (200-word limit) and five keywords.

Book reviews should not exceed 1,000 words; review essays covering two or more works can be up to 3,000 words.

News reports consisting of brief analyses of news developments should not exceed 1,500 words; feature articles combining reporting and analysis can be up to 3,500 words.

Please contact the Editorial Board for interview proposals.

# EDITORIAL

## The Only Viable Route for Developing Countries: Building A Popular-Statist and Auto-Centric Model of Development

The truth of our times is that the neoliberal economic system has completed its course and is now nearing its collapse. The success of this system rested on two imperatives, one being voiced by Fukuyama's dream of a unipolar world and the other finding its expression in Milton Friedman's "flat earth" thesis. However, it took great struggles for humanity to learn that the reality of the 21st century lies in the persisting relevance of nation-states. What brought the end of neoliberalism is the resistance of nation-states and their national economies to imperialist oppression and exploitation, especially those of the People's Republic of China, which is currently preparing to overtake the United States as the world's largest economy. This has also contributed to growing multipolarity in parallel with the dissolution of the Atlantic system. The neoliberal policies imposed by the Atlantic system, which represents the interests of the core countries or imperialist metropolises, have reached an insurmountable impasse. The global pandemic and lockdowns have demonstrated the inadequacies and limitations of the "invisible hand of the market". Moreover, this has shown how the global economic system predicated on free markets, private interests, and profit maximization is a dead end not only for people's livelihoods but also for states' ability to achieve sustainable development.

Under these conditions, developing countries are pushed to deepen their economic policies that protect the national market. In their quest to create alternatives to neoliberalism, they have also begun to concentrate their efforts on advancing international cooperation based on equality, common good, and shared development. The prevailing trend has become one that rejects neoliberal globalization, which aims at the abolition of national borders.

The success that China has achieved over the 70 years since the 1949 revolution led by Mao Zedong is rightly described as a "miracle". The secret of China's success lies in a popular-statist and auto-centric approach driven by strategic planning.

Turkey has not remained immune to the growing trend against neoliberal globalization. In Turkey, there has emerged a stronger will, on a governmental level, to tackle the problems caused by the neoliberal economic program adopted in the 1980s. Turkey is showing the early signs of adopting a new economic model based on state-led investments, production, and employment. Turkey's historical legacy from the early Republican era constitutes one of the main pillars of this effort. The secret of Turkey's economic development after the War of Independence and the Republican Revolution led by M. Kemal Ataturk was based on the same formula as the contemporary "Chinese miracle": state planning, populist economic policies, labor mobilization, public investments, public-private partnerships, and state-guided production and employment. China has already achieved historic success by applying an advanced example of this model in the 21st century.

These two models point to the only viable route for developing countries: protecting their national markets and strengthening the nation-state. This requires a strong government characterized by strategic planning, popular-statist policies, and auto-centric development!

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We are proud to announce that Ding Xiaoqin, Secretary-General of the World Association for Political Economy (WAPE) and one of China's leading academics in the field of international economics, has joined the BRIQ Advisory Board. Another newsworthy development is that BRIQ is now indexed in the Index Copernicus Journals Master List, a prominent index of academic journals. Our journal was already indexed in CiteFactor, another international index for academic publications.

Prof. Dr. Sencer Imer, one of Turkey's distinguished intellectuals and a BRIQ Advisory Board member, passed away in January 2022. We offer our condolences to his relatives, friends, and the entire Turkish academic community.

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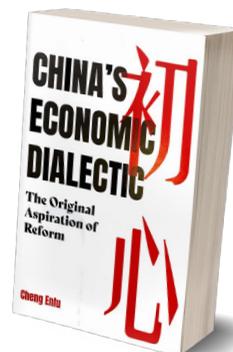


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# National-Democratic State and Development



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## ABSTRACT

The biggest difference of the 21st century from the 20th century is that the “Oppressed World” has created from within itself a “Developing World” that tends to be an alternative to the imperialist system in all aspects of life. The center of production in the world has shifted from the West to the East. The successes of the People’s Republic of China, which led this process with a state-led and sharing approach, created a “miracle” effect all over the world. Today, the whole world is in search of a more egalitarian and fair international order. More importantly, the achievements of the Developing World and the multipolarity accompanying it create a suitable ground for each country to benefit from international cooperation in line with the development strategy it has determined for itself. Today, the decline of imperialist hegemony and the widening of the living space of developing countries cause the objective imperatives of these countries to play a more active role in guiding the attitudes of both their governments and their peoples. The objective conditions in the world today create a very suitable basis for Turkey to complete its national democratic revolution that it started with the Kemalist Revolution. The 20th century began with the rising wave of democratic revolutions in Russia, Turkey, China and Iran. It is no coincidence that these four countries are still at the forefront of the struggle against imperialist hegemony at the beginning of the 21st century. This is a clear indication that our age is the Age of National Democratic Revolutions and Opening up to Socialism.

**Keywords:** Keywords: China, developing world, economy, revolution, Turkey.

THE BIGGEST DIFFERENCE OF THE 21ST century from the 20th century is that the “Oppressed World” has created from within itself a “Developing World” that tends to be an alternative to the imperialist system in all aspects of life. The center of production in the world has shifted from the West to the East. The successes of the People’s Republic of China, which led this process with a state-led and sharing approach under the leadership of the state, created a “miracle” effect all over the world. The growth and development theories developed in the West began to be questioned radically. The one-size-fits-all recipes imposed by the World Bank and the International Monetary Fund on all countries have now lost their credibility as well as their functionality.

The neoliberal international order of the USA, which intended to dominate the globe in an unrestrained way following the dissolution of the Soviet Union, is now collapsing with the emergence of a multipolar world. Today, the whole world is in search of a more egalitarian and fair international order. More importantly, the achievements of the Developing World and the

multipolarity accompanying it create a suitable ground for each country to benefit from international cooperation in line with the development strategy it has determined for itself.

Today, in the Developing World, we are going through a period in which objective imperatives strongly influence subjective attitudes. The expansion of the sphere of life gained by limiting the hegemony of the imperialist system brought along the rapid spread of this effect in political, economic and cultural fields. The fact that the currents triggered by objective factors are so strong is unique to the rising periods of revolution. Today, humanity is on the verge of creating a wholly new world.

On the other hand, it is not possible for the tendencies triggered by objective factors to automatically carry humanity to this new world. Especially in our age, in which humanity has reached the end of spontaneity in social development, understanding this impossibility seems to have become more important than ever. Despite being unique to China, the most important lesson that the Chinese experience teaches to the Developing World,



Researchers work at the International Research Center of Big Data for Sustainable Development Goals in Beijing, capital of China, Sept 8, 2021. (Xinhua, 2021)

which faces a similar problem, is the indispensability of applying a holistic program and strategy prepared in the light of science under the leadership of the state to be successful.

### **The Main Challenge of the Age of National-Democratic Revolutions and Opening Up to Socialism**

The human factor lies at the center of productive forces. The essence of man is his social being. Social relations strengthen the human essence to the extent they contribute to the ability of the society to change the world by mobilizing the creativity and energy of the society. Throughout history, social systems have tended to reinforce the social essence of man during periods of rise, while letting it wither away during periods of downfall. It would not be misleading to take the impact of the system on human social existence as an objective criterion in determining what is socially advanced and what is socially backward.

The position of man in the productive forces has gained a different meaning than ever before. Mankind has not reached the end of history, but it has reached the

end of spontaneity in the development of relations of production. Capitalist relations of production constitute the last instance of production relations that developed spontaneously within the heart of the previous social system. Capitalist relations of production did not emerge as a product of democratic revolutions. On the contrary, democratic revolutions arose as a result of capitalist production relations that developed in the midst of feudalism prior to the revolution. What the revolution has accomplished is the breaking down of the feudal barriers to the spread of these relations and making capitalism the dominant mode of production.

However, neither socialist, nor national-democratic production relations opening up to socialism come into being by themselves in the heart of capitalism. Socialism and the transition to a classless society were put forward as a historical foresight before such a system became real anywhere on earth. It is necessary to design the relations of production towards socialism and therefrom to a classless society, to create the necessary tools for the implementation of the design, and to continue this transformation in an uninterrupted manner. Such a transformation requires a social organization that has a holistic program created under the guidance of science, integrates this program with implementation plans, leads and mobilizes the society for the realization of these plans. In other words, the continual design and transformation of production relations has become a duty that falls upon the human factor located at the center of productive forces. Today, the social organization that is endowed with this ability is the national-democratic state.

The leading role played by the state in making capitalism the dominant mode of production in Germany, Japan and Italy, which are the countries of “late capitalism”, is instructive in this respect. In the Age of Imperialism, the path to “late capitalism” is blocked for oppressed countries. Aiming at “late capitalism” therefore would inevitably damage the independence and sovereignty of a developing country by subordinating it to imperialist markets.

The main force, on which the protection of independence and sovereignty can be based, is the nation. A country's letting itself to get directed by imperialist market forces would end up with weakening the nation. While the working classes, which make up the majority of the nation, would be crushed under this burden, an important part of the industrialists and businessmen who are based on the country's soil would face destruction. The maximal goal of imperialism is to liquidate the national states of the oppressed and developing countries. The consequence of the weakening of the national state is that the imperialist system gains new positions to dissolve the nation by manipulating the social fault lines within the country. On the other hand, the disintegration of the nation weakens the nation-state further as well.

### **Independence and sovereignty are the prerequisites to reveal the production potential of the nation at a maximal level.**

The nation is also the main force of development of the country in every field - first and foremost in the economy - along with protecting and consolidating the independence and sovereignty of a country. Independence and sovereignty are the prerequisites to reveal the production potential of the nation at a maximal level. When unleashing this potential is accompanied by sharing the wealth among the whole nation in a way that reinforces the national unity, independence and sovereignty will also be further assured unshakably. Thus, the main challenge faced by the oppressed developing countries is to strengthen the national unity in order to preserve and consolidate their independence and sovereignty, along with organizing and transforming the production relations in a way that will optimize the productive forces qualitatively and quantitatively.

There is no ready-made recipe for pursuing these two aims in a harmonious manner such that they mutually reinforce each other. Although different countries can benefit from each other's experience as they have common problems, the main principle is that each country determines and implements a development strategy in every field, not only in economy, specific to its own characteristics in the light of science. Scientific socialism is the true guide in establishing and transforming the relations of production, as well as in managing this process so as to prevent the contradictions between different classes and segments of the nation from becoming antagonistic and without creating obstacles to development. Today, this problem constitutes the main source of the theoretical development of scientific socialism in praxis.

This complex process, which covers all areas of life, can only be carried out under the leadership of the state. In order for the nation to mobilize its energy and creativity, however, the state must truly be transformed into the organized form of the nation. This goal can only be reached under the guidance of scientific socialism. Today, we are going through a period in which the fact that the working class is the class that has to save all of humanity in order to save itself has become very prominent.

### **National-Democratic Revolution and Development**

As long as an abundance of production that enables distribution according to need cannot be achieved, competition in sharing will continue to exist among individuals. Although the existence of individuals who prioritize the public interest above their individual interest constitutes an indispensable condition for social progress of humanity today, it alone does not suffice to eliminate the competition for distribution. In other words, it is not possible to eliminate the contradiction between public interest and individual interest through



Container vessels loading at Yangshan Port, Shanghai. (Ji Haixin/China Daily, 2022)

purely ideological struggle, as long as a suitable objective ground is not established in economic terms.

Based on this conclusion, we can make the following four inferences. First of all, it is inevitable to make use of individual interest as a driving force in order to be able to convert a nation's potential into a productive power at a maximal level. Secondly, the shaping of this process cannot be left to the spontaneity of the capitalist market forces, and thus there is a need to design social and economic mechanisms that will subordinate the individual interest to the public interest. Thirdly, arranging the relations of production so as to open the way for the development of productive forces should not be considered as a one-shot act, but rather as an uninterrupted process that should continually be kept on the agenda. Fourthly, this process can only be managed appropriately under the presence of a political power that is guided by science and prioritizes public interest over individual interest.

### **Creative Competition Instead of Destructive Competition**

Under capitalism, competition is unrestrained. In the capitalist system, it was competition itself that destroyed competition because of its lack of restraint. Regarding

everything that leads to domination as allowable has led non-economic means of power to come to the fore in competition. Monopolization is the product of this self-destruction of competition. The financial capital ceased to function as the blood circulation of production and gained a dominating position over the production economy due to the competitive advantage that money capital owns. Most importantly, the aim of acquiring new and powerful means of competition led to the formation of the imperialist state, by making the state a collective armed organization of finance capital under capitalism. The imperialist state thus turned into an armed device that serves to pave the way for the export of increased finance capital, seeking new areas for itself. Today, the imperialist state has gained a mafia-like character, which is collecting tribute directly by means of force.

As a consequence, the capitalist system lost its resource distribution efficiency, which it owned in its competitive period. Today, the system that can benefit from this ability of the markets is a national-democratic system opening up to socialism. On the other hand, in order for competition to continue its function to reveal the production potential and creativity of the nation, it is essential not to leave the economy to the spontaneity of market forces, since the main factor that led to the destruction of competition under capitalism was precisely the spontaneity of the process. Competition serving the aim specified above can only be sustained under the leadership of a state that watches over the interests of the whole nation, especially the working classes, and that is equipped with the central tools needed to steer the markets. Moreover, it is of vital importance for the state to protect itself from the influences of those who gain economic power in this process with the goal of letting the state deviate from collective aims for the sake of their own individual interests. In other words, “capitalist roaders” need to be kept away from power, especially from key points of power. Today, it is impossible for an oppressed country to become a capitalist country

by getting integrated to the imperialist world market. The only way for such a country to become a capitalist country is, however, to “return to capitalism” after having developed its economy through the national-democratic revolution.

### **Planning to Subordinate Individual Interest to Collective Interest**

The regulatory and guiding role of the national-democratic state on the markets is not limited to intervening in the distribution process. Undoubtedly, it is extremely important to ensure that all segments of the nation benefit from the increase in welfare in order to consolidate national unity. Moreover, it is necessary to give priority to the poorest sections of the nation and the poorest regions of the country. But limiting the economic leadership of the state to this function simply means reducing it to a “social state”. The long-term focus of the collective interest is the development of productive forces. For this reason, production is located at the top of the planning hierarchy in terms of content and level.

It is essential that production goals reflect the interests of the collective. Planning should not be considered as a purely technical activity. Development is a two-legged process with both economic and social aspects. That is so as its implementation requires the strengthening of the nation’s overall ability. Achieving the set goals requires not only the training of a workforce equipped with the necessary techniques and knowledge, but also the mobilization of the nation by appropriating the adopted strategy. Unleashing the energy and creativity of the nation and ensuring effective participation in the implementation of the strategy are of key importance. Raising the cultural and social level of the nation is an element that must be constantly observed. In case social development lags behind economic development, the consequence is that economic development both slows down and moves away from the collective interest. It is essential that every development strategy is accompanied

by a formal and nation-wide education strategy.

Planning includes determining both the goals and a road map to be followed to achieve those goals. It is of great importance to make the right distinction between what is to be planned directly and what will benefit from the functioning of the markets in order to reach the set targets. To give an example from the human body, the fact that our heartbeat, breathing, or functioning of our internal organs are automated, enables us to concentrate our consciousness beyond the bodily activities necessary for survival. If one had to constantly run the “blood pump” or “breathing bellows” oneself, one would not be able to do anything but struggle to stay alive.

“Economic and Social Design” is a relatively new branch of science that deals with the design of economic and social mechanisms to ensure that the resulting outcomes are compatible with the collective interest in environments where the use of individual interest as a trigger is inevitable. Concentrating on this field within the science of economics is expected to yield quite efficient results.

### **A Planning Process Based on Continual Transformations Under the Leadership of the State**

The problem underlying the national-democratic development is to ensure the harmony between the productive forces and the relations of production in a way that will develop the productive forces. This situation necessitates constant readjustments in the relations of production, depending on the qualitative and quantitative improvement in the productive forces. The Chinese Experience provides us with rich examples in this respect.

What enabled China to acquire and develop advanced technologies through partnerships between China’s state companies and foreign companies in the 1990’s was that the production capability of China’s manufacturing industry had already developed beyond

a certain threshold with the Reform and Opening Up Movement that had started in 1978. Eliminating the inequality between rural areas and cities requires an urbanization process compatible with the development speed of the industry. One of the reasons why China was locked in a high growth rate for a period was to ensure that the planned urbanization could be carried out without causing unemployment. In the transition from an export-based economy to an economy that considers strengthening the domestic market as its primary goal, measures have been taken to reduce the savings rates of households. This transition was accompanied by an increase in welfare in the whole country, the middle class was strengthened, and the transfer of resources towards production to the relatively backward regions was centrally accelerated in order to reduce the inequalities between regions. This made it possible to eradicate absolute poverty in China in 2021. The eradication of absolute poverty was achieved not by “providing monetary support”, but by creating new production and employment opportunities.

**Property relations are at the center of relations of production. The Chinese economy is today a mixed economy led by the state.**

In an economy directed sheerly by market forces, it is not possible for backward technologies to survive alongside advanced technologies that have become widespread. The reason for this is that the main factor that drives the economy is the “profit motive”. However, in a state-led economy based on production and employment, it is possible to use advanced and backward technologies simultaneously in the same field. China has successfully benefited from this opportunity in its development process.

The development of productive forces is based on raising the productivity of the workforce. China’s “high-tech zones”, which were created to acquire advanced technologies, are not limited to partnerships established with foreign direct investments using advanced technology. In each high-tech region, besides the production activity, there are universities, vocational schools and research and development centers.

As vocational schools carry out their training on the job as a part of production activity, there is also a division of labor between universities and R&D centers. While universities are trying to develop solutions for the relatively more general problems of the region, which also require a theoretical approach, the task assigned to R&D institutions is the designing of innovations that will increase the competitiveness of products. In addition, the obligation to employ a certain percentage of Chinese managers at all management levels of the partnerships in these regions is also meant to provide a wide-spread “training in management”.

Property relations are at the center of relations of production. The Chinese economy is today a mixed economy led by the state. In the Chinese economy, where public ownership, group ownership and personal ownership coexist, different “hybrid ownership forms” have also been “experimentally” examined in this process. The designed hybrid property forms were first put into practice in the pilot regions, and after testing their ability to develop productive power, the successful ones were expanded, while the unsuccessful ones were abandoned.

Interest rates, exchange rates, inflation, employment, savings and investment rates and similar macroeconomic indicators form the climate of an economic environment. Therefore, these variables have different optimal values in terms of compliance with the priorities of each period. The state should be equipped with the central tools needed for the transformation of the economy, which will enable it to make the route changes, naturally obeying

the objective causality relations that exist between these variables. China, which has made such route changes by regarding money as the “blood” of production and thereby subordinating the money circulation to the needs of production, has thus managed to come out of the global financial crisis with relatively less damage.

### **The State Directed by the Public Interest Under the Guidance of Science**

Today, the nation is the main force for both the protection of the independence and sovereignty of the country against the imperialist hegemony and for the development of the country. The nation-state is the basic organization of the nation in this struggle. There are two main principles for the successful management of these processes by the national state. The first is combining the guidance of science with the total and effective mobilization of the nation; and the second is to ensure that the political power adheres to the principle of subordinating individual interest to collective interest. To the extent these two principles are fulfilled, the national state truly transforms into an organization of the nation.

### **Political powers that adopt science as a guide and serving the public as a principle will form the pioneering units of the New World sharing a common future.**

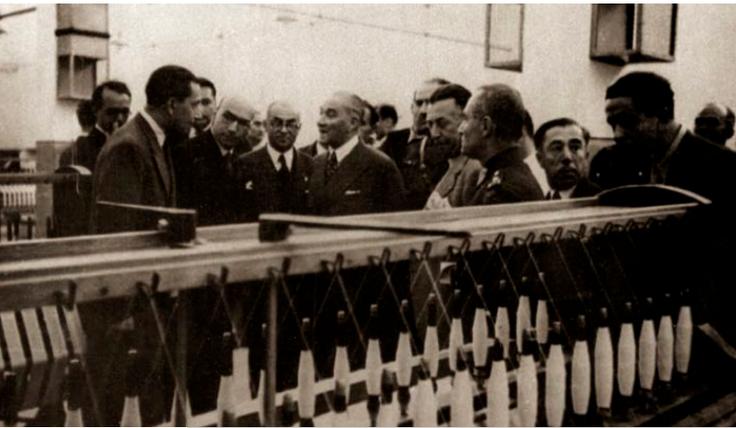
The main source of democracies established with the bourgeois democratic revolutions in the West is the need for reaching a compromise among the ruling classes. The position assigned to the people in these democracies is a passive one. The liberating effect of the rise of capitalism led the people to go beyond the position assigned to them by the system and to fight for their rights. The imperialist countries managed to soften

their internal contradictions by plundering the colonies and gradually reduced democracy to a tool of disabling systemic disapprovals by dragging them to the edge of the society. The function tailored to “democracy” by the imperialist system in the developing world countries, on the other hand, can be summarized as keeping the country’s channels open to imperialist influence, pressure and interventions.

However, the need of developing countries is to bring the people to an active position. The main assurance of the protection of the country’s independence, consolidation of the nation’s sovereignty and the implementation of development programs and strategies is the mobilization of the nation. Thus, the Developing World needs a New Democracy that looks after the masses to raise their level by learning from their own experiences, and that serves to unleash their creativity and productive energies. Each country is faced with the task of establishing and developing its own “New Democracy”, which fits its own characteristics and whose main principle is “serving the people”, instead of the one-size-fits-all “democracy recipes” imposed by the West.

The formation and dissemination of political powers based on public interest and sharing, relying on the guidance of science in social and economic development in the Developing World will only become possible if this goal is appropriated by the whole nation, especially the working classes. The dominance of the economically powerful groups in power is an obstacle to this goal. Political powers that adopt science as a guide and serving the public as a principle will form the pioneering units of the New World sharing a common future.

The Chinese Experience contains elements that are instructive in this respect as well. The secret of China’s success lies in the insistence on socialism together with the re-discovery of nation as the fundamental social force of our age. Today, special care is taken to keep capitalist roaders away from power in order to continue the construction of socialism in China.



Opening the Nazilli Printed Cloth Factory, Nazilli, Aydın, 9 October 1937. (Atatürk website)

### **An Egalitarian and Just International Order and Development**

Competition under capitalism has turned into destruction at the stage of imperialism. The two world wars, triggered by the rivalry between imperialists, have brought a destruction to humanity, which is unprecedented throughout history. The key concept of the international order imposed by imperialism on the world is “hegemony”. Today, hegemony encompasses not only the coercive domination of the imperialist system over the Oppressed World, but also the US control over other imperialist countries within the imperialist system’s own hierarchy. The neoliberal international order designed and imposed by the USA for this purpose is rapidly collapsing today. The main factor that led to this rapid decline of US hegemony is the Rise of Eurasia. This rising power, which tends to form an alternative to the imperialist system in all aspects of life, aims to jointly shape the common future of humanity. A new, egalitarian, just and mutually beneficial international order has already begun to be established within the struggle against US hegemony in military, political, economic, ideological and cultural fields.

Today, the only monotype system is the imperialist

world. Developing countries show a wide diversity due to the fact that they are at different stages of the nation-building process and their historical, cultural and social backgrounds differ. The new international order will be one that respects this diversity and allows each country to benefit from international cooperation in line with its own development strategy determined according to its own characteristics. The diversity of the Developing World will thus turn into a new source of power that does not divide countries, but unites them in building the common future of humanity. Interaction between different cultures will strengthen the process of building a new and higher level of common human culture.

A new international order can only be built with the active participation of all countries in life and struggle. The Belt-Road Initiative, led by China, is an effective and important tool for advancing this process. The success of this initiative, which also aims to transform the terrestrial structure of Eurasia from being a disadvantage to an advantage, depends on the participation of other countries more effectively in both shaping and implementing this initiative.

The most solid guarantee of an egalitarian and fair international order is that all countries become strong. China’s rapid development, which is described as “miraculous”, has shown the whole world that poverty is not destiny. It has thus been demonstrated how effective a correct development strategy, which is set on the basis of science and put into practice under the leadership of the state, is in revealing the production potential of a nation. It has become visible with naked eye that the welfare of a country is not located behind mountains that are not accessible. This is the most important lesson to be drawn from the Chinese experience. Moreover, the possibility of transforming “international relations”, which acts as a hindrance under the imperialist system, into international cooperation that each country can benefit from in accelerating its own development in

the new international order opens up new horizons for humanity.

### **Despite its diversity, the principles of the Kemalist Revolution form the backbone of the Developing World's common program today.**

Programs, strategies and policies, no matter how strongly they reflect the common aspirations of humanity, are excluded from life as long as their objective conditions are not met. Today, the decline of imperialist hegemony and the widening of the living space of developing countries cause the objective imperatives of these countries to play a more active role in guiding the attitudes of both their governments and their peoples. President of Turkey, Tayyip Erdogan, recently made a statement that they “adopted the Chinese model”. MetroPOLL Research Company, in its field research, confirmed that the demand for Turkey to “give priority to China and Russia” in its foreign relations has become outweighing the demand of “giving priority to the USA and the European Union” among the Turkish people. Russia, China and Turkey are seen as friends of Africa in the struggle against neocolonialism rising in this continent. All of these are indications that the nations of the world are seeing and learning the facts quickly within their own experiences. The USA's prioritization its efforts to thwart the Belt-Road Initiative, or the portrayal of Xi Jinping, Vladimir Putin and Tayyip Erdoğan in semi-official media organs of the imperialist system as “leaders who must be eliminated as soon as possible” form the other facet of one and the same medallion.

Turkey achieved its independence and sovereignty with the War of Independence against the imperialist occupation at the beginning of the 20th century. The Kemalist Revolution, led by Atatürk, constituted a

unique breakthrough of Turkey's national-democratic revolution. The principles of nationalism, populism, republicanism, statism, secularism and revolutionism summarize the Kemalist Revolution Program. Nationalism states that the basic power is the nation, both for the protection of independence and sovereignty, and for economic and social development. Populism bases the revolution on the people – first and foremost the peasantry – and the principle of serving the people. It reflects the approach that the future of the country cannot be secured without ensuring the welfare and effective participation of the people. Republicanism is the expression of the need for the nation-state to be truly the organized form of the nation. Statism emphasizes the indispensability of the leading and planning function of the state for the construction of a national-democratic economy and society. Secularism is the main tool for overcoming the feudal elements that hinder the nation-building process. Secularism is based on the Enlightenment, which accepts science as the truest guide in life. Revolutionism reflects the fact that the revolutionary process must be carried out incessantly.

A century that has passed has not eroded the principles of the Kemalist Revolution. Despite its diversity, these principles form the backbone of the Developing World's common program today. Desired benefits from flexibility can only be obtained in the presence of a solid spine. The objective conditions in the world today create a very suitable basis for Turkey to complete its national-democratic revolution that it started with the Kemalist Revolution.

The 20th century began with the rising wave of democratic revolutions in Russia, Turkey, China and Iran. It is no coincidence that these four countries are still at the forefront of the struggle against imperialist hegemony at the beginning of the 21st century. This is a clear indication that our age is the Age of National Democratic Revolutions and Opening up to Socialism. 🌸

# Making Solid Progress Toward Common Prosperity\*

President of the People's Republic of China Xi Jinping

**"Bringing prosperity to all is an essential requirement of socialism, as well as an important feature of Chinese-style modernization. The common prosperity we are working to achieve is for everyone, and covers enrichment of people's lives in both the material and non-material sense. Even in the future when we have reached a higher level of development, we still must not aim too high, and steer clear of the idleness-breeding trap of welfarism."**



AFTER THE LAUNCH OF REFORM AND opening up in 1978, through a thorough review of both positive and negative historical experiences, our Party (Communist Party of China) came to realize that poverty is not socialism, and thus began breaking down the constraints of outdated systems. This allowed some areas and some people to become better-off first, and drove the liberation and development of productive forces.

Since the 18th CPC National Congress held in 2012, the Central Committee has kept a firm grasp on new changes in our stage of development, and given greater weight to gradually achieving the goal of prosperity for all. To this end, our Party has promoted coordinated development between different regions, and adopted effective measures to improve people's wellbeing, win the battles to eradicate extreme poverty and build a moderately prosperous society in all respects. These efforts have created conditions

conducive to bringing about prosperity for all. We have thus advanced into a historical stage in which we will make solid steps toward common prosperity.

We are now marching toward the Second Centenary Goal of building China into a great modern socialist country. In response to the evolution of the principal challenge facing Chinese society and people's growing needs for a better life, we must make achieving common prosperity the focus of the Party's efforts to seek happiness for all Chinese people, which will in turn solidify the foundations of the Party's long-term governance. High-quality development requires high-caliber workers. Only by promoting common prosperity, increasing urban and rural incomes, and improving human capital can we raise total factor productivity and build a strong base of momentum for high-quality development. We are now living in a world in which income inequality

\* The text is retrieved from Qiushi website, [http://en.qstheory.cn/2022-01/18/c\\_699346.htm](http://en.qstheory.cn/2022-01/18/c_699346.htm)

is a glaring problem. Some countries have witnessed the growth of a huge gulf between rich and poor and the collapse of the middle class, which has led to social division, political polarization, and a surge of populism. This is a profound lesson. We in China must make resolute efforts to prevent polarization and promote common prosperity in order to safeguard social harmony and stability.

Meanwhile, we must be soberly aware that unbalanced and inadequate development remains a prominent problem in China. In particular, there are large disparities in both development and income distribution between rural and urban areas, and between regions. The latest round of scientific and technological revolution and industrial transformation has not only given a strong push to economic development, but also exerted a profound impact on employment and income distribution. This includes certain negative impacts that we must take effective steps to address.

**Bringing prosperity to all is an essential requirement of socialism, as well as an important feature of Chinese-style modernization. The common prosperity we are working to achieve is for everyone, and covers enrichment of people's lives in both the material and non-material sense.**

Bringing prosperity to all is an essential requirement of socialism, as well as an important feature of Chinese-style modernization. The common prosperity we are working to achieve is for everyone, and covers enrichment of people's lives in both the material and non-material sense. It is not prosperity for a minority, nor is it rigid egalitarianism.

We should undertake thorough research on targets in different stages, and advance common prosperity in phases. By the end of the 14th Five-Year Plan period (2021-2025), we will have made solid progress toward bringing prosperity to all, while gaps between individual incomes and actual consumption levels will gradually narrow. By 2035, we will have made more notable and substantive progress toward common prosperity, and equitable access to basic public services will be ensured. By the middle of this century, common prosperity will be basically achieved, while gaps between individual incomes and actual consumption levels will be narrowed to an appropriate range. To reach these goals, we must promptly formulate an action plan for promoting common prosperity, and devise rational and workable systems of targets and methods of evaluation that suit China's national conditions.

There are four principles that we must adhere to in advancing common prosperity.

### **First, encouraging people to pursue prosperity through innovation and hard work**

Just as a happy life is achieved through hard work, common prosperity can only be created with ingenuity and effort. We must stay committed to ensuring and improving people's wellbeing through development. Making high-quality development the top priority, we will create more inclusive and equitable conditions for people to further their education and enhance their capacity for self-development. This will boost human capital and improve specialized skills throughout society, build up people's capacity to find jobs and start businesses, and make



President Xi Jinping chaired and delivered a key speech at a forum on high-quality follow-up development of the South-to-North Water Diversion Project in Nanyang, Henan Province. He is seen here the day before the meeting chatting with locals in nearby Zouzhuang Village at a green farm producing vegetables and fruits set up with business development fund for people relocated as a result of the water diversion project, May 14, 2021. (Wang Ye/Xinhua, 2021)

people better able to achieve prosperity. We must prevent rigidified social strata by maintaining clear channels for upward mobility and creating opportunities for more people to become better-off. By doing so, we will foster a development environment that encourages everyone to participate and dissuades them from getting lost in the ideas of “lying flat” and “involution.”

### **Second, upholding our basic economic system**

We must base our work on the reality that China remains in the primary stage of socialism, and reaffirm our commitment to the development of both the public and non-public sectors of the economy. We must uphold the predominance of public ownership while also allowing various forms of ownership to develop side by side, so as to leverage the important role of the public sector in advancing common prosperity. Meanwhile, we should also promote health-

hy growth of the non-public sector of the economy and of people working in this sector. While allowing some people to become prosperous first, we should lay more stress on pushing these people to give a helping hand to those following in their wake. In particular, we should encourage people inspiring others to pursue prosperity through diligent work, entrepreneurship, and legitimate business activities. Improper means of acquiring wealth must not be encouraged, and breaches of laws or regulations must be handled in accordance with the law.

### **Third, doing our utmost while working within our means**

We must set up a rational public policy framework and form a reasonable pattern of distribution in which everyone gets a fair piece of the pie. We must make greater efforts and adopt more effective measures to see that the people have a greater sense of fulfillment. But at the same time, we must

also be aware that the gap between China and developed countries in terms of level of development remains large. Taking into account both what is necessary and what is possible, we must ensure and improve people's wellbeing whilst maintaining the sustainability of our economic development and financial resources. We must not be overly ambitious or get people's hopes up by making promises that we are not able to keep. The government cannot take on everything. Instead, its main responsibility should be strengthening the development of projects related to public wellbeing that are fundamental, inclusive, and focused on meeting basic needs. Even in the future when we have reached a higher level of development and are equipped with more substantial financial resources, we still must not aim too high or go overboard with social security, and steer clear of the idleness-breeding trap of welfarism.

#### **Fourth, pursuing incremental progress**

As a long-term goal, achieving common prosperity will take time. We cannot expect to accomplish it overnight. We must have a full picture of the long-term, complex, and onerous nature of this goal, and recognize that to realize it we can neither wait around nor be too hasty. Some developed countries began industrializing centuries ago, yet as a result of deficiencies in their social systems, they have not only failed to crack the problem of common prosperity, but are facing increasingly severe disparity between rich and poor. We must therefore be patient, and work one step at a time to ensure that our efforts produce concrete results. While making solid progress in building Zhejiang Province into a demonstration zone for common prosper-

ity, we must also encourage other areas to explore effective paths tailored to their own conditions. We will draw together experience, and then gradually apply it in other areas.

**Our general guidelines in this regard are to adhere to the people-centered philosophy of development, promote common prosperity through high-quality development, and properly balance the relationship between equity and efficiency.**

Our general guidelines in this regard are to adhere to the people-centered philosophy of development, promote common prosperity through high-quality development, and properly balance the relationship between equity and efficiency. We should establish basic institutional arrangements enabling coordination and complementarity between the primary, secondary, and tertiary distribution. We should intensify our efforts to regulate distribution through taxation, social insurance, and transfer payments while also working to make these efforts more precise. This will help us expand the relative size of the middle-income group, raise incomes among low-income earners, properly adjust excessive incomes, and prohibit illicit income, creating an olive-shaped distribution structure that is larger in the middle and smaller at each end. By doing so, we will be able to promote social fairness and justice and people's well-rounded development, and make solid strides toward the goal of common prosperity for all.

To achieve this goal, we will focus our efforts on the following six areas:



President Xi Jinping speaks to locals taking part in ethnic cultural activities for the Double Third Festival outside the Anthropology Museum of Guangxi in Nanning on the morning of April 27 during a tour of Guangxi Zhuang Autonomous Region, April 25-27, 2021. (Xie Huanchi/ Xinhua, 2021)

### **1. We will work to make our development more balanced, coordinated, and inclusive.**

We will accelerate efforts to improve the socialist market economy, and promote more balanced, coordinated, and inclusive development. In order to make regional development more balanced, we will implement major regional strategies and coordinated regional development strategies, refine the transfer payments system, reduce gaps in per capita fiscal spending between regions, and increase support for underdeveloped areas. We will also work to boost coordination in development between different industries. To this end, we will expedite reform of monopoly industries and promote coordinated development between the real economy and the financial and real estate industries. Moreover, we will support the development of small and medium-sized enterprises, and create an environment in

which enterprises of all sizes develop in an inter-reliant and mutually reinforcing manner.

### **2. We will strive to expand the size of the middle-income group.**

Focusing on key groups, we will take targeted measures to help more low-income earners enter the middle-income bracket. Graduates with higher education are an important source for populating the middle-income group. We must therefore raise the quality of higher education, seeing that students are able to acquire a specialty from schools and apply this specialty in practice. In this way, we will help graduates adapt to the needs of social development as quickly as possible. Technical workers also represent an important part of the middle-income group. With this in mind, we will step up training of skilled personnel and increase wages among technical workers in order to attract more high-caliber talent to join their ranks.

Owners of small and medium-sized enterprises as well as self-employed people are part of an important group building wealth through entrepreneurship. To help them maintain steady business operations and enjoy sustained growth of income, we will improve the business environment, reduce tax burdens, and provide more market-based financial services.

**Low-income groups are the key target of assistance and support in our efforts to promote common prosperity. We must increase investment in human capital that covers all groups, ease the education burden on families facing difficulty, and raise the education levels of children of low-income families.**

With regard to rural migrant workers, who constitute another important source of middle-income earners, we will deepen reform of the household registration system, and address problems related to education for children living with their parents who are from rural areas but now working in cities, helping them hold steady jobs and feel more at ease about living in the city. We will appropriately raise the pay packages of public servants, especially those working at the local level, as well as primary-level workers of state-owned enterprises and public institutions. Additional steps will be taken to boost income generated from urban and rural houses, rural land, and financial assets.

### **3. We will promote equitable access to basic public services.**

Low-income groups are the key target of assistance and support in our efforts to pro-

mote common prosperity. We must increase investment in human capital that covers all groups, ease the education burden on families facing difficulty, and raise the education levels of children of low-income families. By refining the pension and medical insurance systems, we will narrow gaps in funding and benefits between working and non-working individuals, and between urban and rural residents step by step, and gradually increase basic pension benefits for rural and urban residents. We will improve the assistance system for basic needs, working faster to reduce disparities between urban and rural social assistance standards and gradually raising minimum subsistence allowances for both urban and rural residents in order to ensure that people's basic needs are met. We will also take steps to improve the housing supply and support systems. Acting on the principle that houses are for living in rather than for speculation, we will encourage both renting and purchasing of housing, implement city-specific policies, refine policies for long-term rental housing, and increase the supply of government-subsidized rental housing. Priority will be given to addressing the demand for housing from new urban residents.

### **4. We will adopt more rigorous measures to regulate high income.**

While ensuring that legitimate income is protected in accordance with the law, we must also prevent polarization and eliminate unfair practices in distribution. We will regulate excessively high income in a reasonable manner, improve the personal income tax system, and standardize the management of capital gains. We will make active and prudent efforts to advance real estate tax legislation and reform,

and carry out trials in this regard. We will enlarge the role of consumption-based taxes in regulating distribution, and look into expanding the scope of excise taxation. We will strengthen standardized management over public interest and charitable endeavors, and improve preferential tax policies in order to encourage high-income groups and enterprises to give more back to society. We will put unreasonable incomes in check, and intensify efforts to regulate income distribution in monopoly industries and state-owned enterprises. In particular, we will rectify abnormalities such as increasing executive incomes under the guise of reform so as to set income distribution straight. We will strictly prohibit unlawful income, take determined steps to stop influence peddling, and crack down on methods of obtaining illegal income including insider dealing, stock market manipulation, financial fraud, and tax evasion.

**Bringing prosperity to all is highly integrated with our efforts to promote well-rounded human development. We must reinforce the guiding role of core socialist values, and strengthen education on patriotism, collectivism, and socialism.**

After years of experiment, we have developed a complete package of measures to tackle poverty, but we still need to build up experience on how to achieve prosperity. We will strengthen protection of property rights and intellectual property rights, and ensure that legitimate activities to acquire wealth are protected. We must firmly oppose disorderly expansion of capital, establish negative lists for access to sensitive fields, and intensify an-

ti-monopoly oversight. Meanwhile, we must energize entrepreneurs, and promote sound and well-regulated development of all types of capital.

### **5. We will strive to achieve common prosperity also in a non-material sense.**

Bringing prosperity to all is highly integrated with our efforts to promote well-rounded human development. We must reinforce the guiding role of core socialist values, and strengthen education on patriotism, collectivism, and socialism. By developing public cultural undertakings and improving the public cultural service system, we will continue to satisfy people's diverse, multileveled, and multifaceted demands in the intellectual and cultural sphere. We must also do better at guiding discourse on the push for common prosperity, clear up confusion among people with a lack of solid understanding, and ensure that people are not too eager for quick results or afraid of facing challenges, thereby cultivating a favorable environment of public opinion for advancing common prosperity.

### **6. We will bring common prosperity to rural areas and rural residents.**

The most arduous and formidable tasks in advancing common prosperity still lie in rural areas. While we need to press ahead with common prosperity in rural areas, it is inadvisable to quantify targets like we did in the poverty alleviation campaign. We will consolidate and build upon the success we achieved in the fight against poverty. In doing so, we will strengthen monitoring over people at risk of lapsing or relapsing into poverty,



Chinese President Xi Jinping in the symposium on advancing the high-quality follow-up development of the South-to-North Water Diversion Project, in Nanyang, central China's Henan Province, May 14, 2021. (Wang Ye/ Xinhua, 2021)

and be prepared to take quick action to help them if needed. We will also continue to give a leg up to counties that have been lifted out of poverty so as to guard against new poverty or large-scale relapse into poverty. We must make all-round efforts to implement the rural revitalization strategy. For instance, we will accelerate agricultural industrialization, put rural assets to use, and increase the property income of rural residents, thereby helping them become prosperous through hard work. We will boost development of rural infrastructure and public service systems, and improve the living environment in rural areas.

To sum up, I believe that achieving common prosperity is a holistic concept in the same vein as building a moderately prosperous society in all respects. Common prosperity is a goal for all of society, and therefore we should

not break it up into separate goals for urban and rural areas or for the eastern, central, and western regions. Instead, we should adopt an overall perspective. In order to achieve common prosperity for 1.4 billion people, we must put in persistent effort and maintain a realistic attitude. Our goal is neither to bring prosperity to everyone simultaneously, nor to see that regions reach a certain level of affluence all at the same time. Different groups of people vary not only in terms of the level of prosperity they can potentially achieve, but also the length of time they need to achieve it. Furthermore, it would be impossible to develop all regions at the same pace because of the gaps in wealth that still exist between them. This is a dynamic process of pushing ahead, and we must put in continuous effort to reap continuous results. 🌸

*This was an excerpt from General Secretary Xi Jinping's speech at the 10th meeting of the Central Financial and Economic Commission on August 17, 2021.*

# China: A Socialist Model of Development?



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**MICHAEL ROBERTS**Economist

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*Michael Roberts worked as an economist in the City of London for various financial institutions for over forty years. His academic papers can be found here: <https://independent.academia.edu/MichaelRoberts33>. He has written several books including: *The Great Recession - a Marxist view* (Lulu, 2009); *The Long Depression* (Haymarket, 2016); Joint ed: *World in Crisis* (Haymarket, 2018); *Marx 200* (Lulu, 2018); and *Engels 200* (Lulu, 2020). He is joint author with G. Carchedi of a forthcoming book published this summer by Pluto Press: *Capitalism in the 21st century - through the prism of value*. He blogs regularly at [thenextrecession.wordpress.com](http://thenextrecession.wordpress.com)*

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## ABSTRACT

In the past 40 years, China's growth has been phenomenal. Since the global financial crisis and the Great Recession in the major capitalist economies, China has continued to close the output gap with the leading capitalist economies. Will China continue to catch up in the next 40 years or will it suffer the fate of the so-called "middle income trap" experienced by other "emerging" economies? The paper considers three possible explanations for China's economic progress: that offered by: neoclassical growth theory; a Keynesian-style forced investment model; and a Marxian model based on the laws of value and the productivity of labor. The neoclassical model highlights China's comparative advantage of cheap and plentiful labor; the Keynesian model concentrates on the role of China's high investment ratio; the Marxist model emphasizes China's exceptional curbing of the law of value in capitalist production, allowing the faster expansion of labor productivity while revealing the essential contradictions within "socialism with Chinese characteristics".

**Keywords:** China, development, inequality, productivity, socialism.

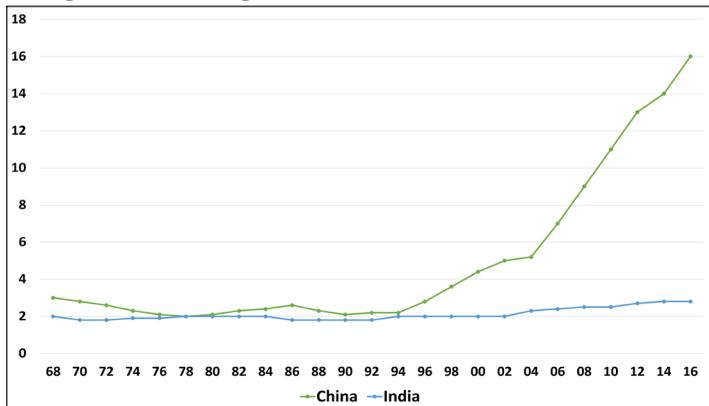
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### Unprecedented Development

THIS YEAR, XI JINPING WILL OBTAIN an unprecedented third term as President of China and General Secretary of the Communist Party of China (CPC). He is now China's most powerful leader since Mao Zedong. Like Mao, Xi now has his own 'body of political thought' carrying his name as added to the Communist Party's constitution after the 19th Party Congress at which Xi pledged to lead the world's second-largest economy into a "new era of international power and influence". At a closing ceremony in the Mao-era Great Hall of the People, it was announced that Xi's Thought on Socialism with Chinese Characteristics for a New Era had been written into the party charter: "The congress unanimously agrees that Xi Jinping Thought ... shall constitute [one of] the guides to action of the party in the party constitution," a party resolution stated (Li, 2017).

In the past 40 years, China's growth has been phenomenal. And since the global financial crisis and the Great Recession of 2008-9 in the major capitalist economies, China has continued to close the output gap with the leading capitalist economies. China's industrial output has risen from being about 70% of the US in 2008 to overtaking the US by a substantial margin to reach 140% by 2019. In those 12 years before the pandemic broke, China's industrial output rose 150% while industrial production in the US rose just 25%. With 19% of the world's population, no country has ever grown so fast – only India, with 16% of the world's people, is close. Back in the early 1980s, three-quarters of the world's people were better off than the average Chinese. Now only 31% are (Roberts, 2020a). In 2010, 87 countries had a higher per capita gross domestic product (GDP) than China, but 83 were lower. This is an achievement without precedent.

Figure 1. Share of global GDP: China and India (\$ market prices)



Source: World Penn Tables 10.0, author's calculation.

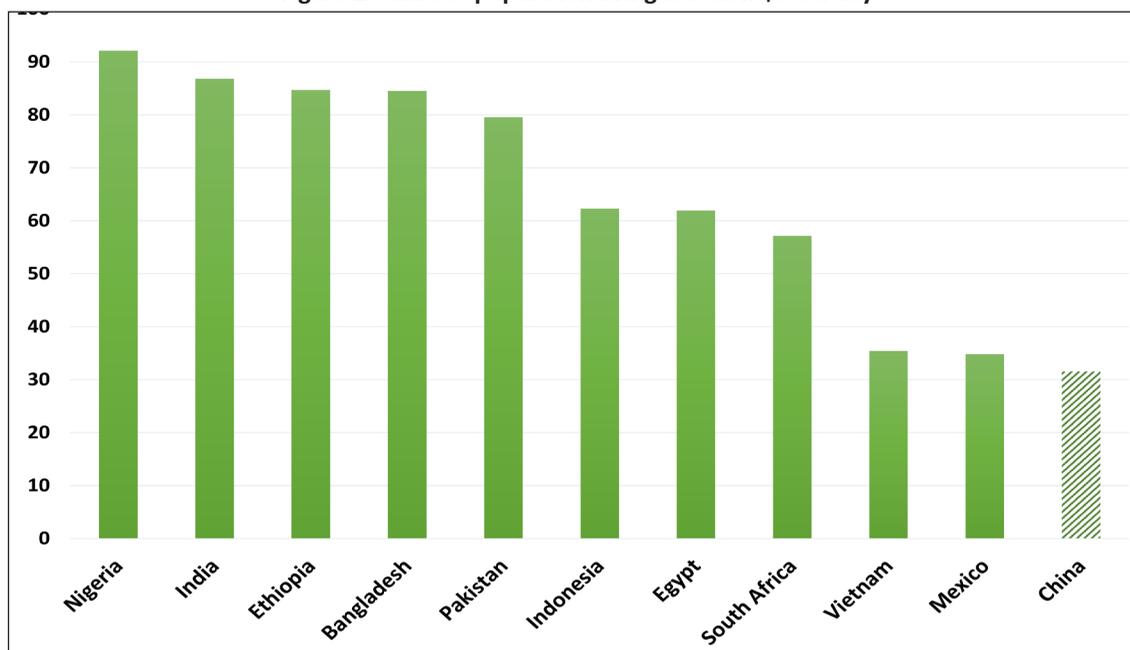
Even if China's average real economic growth were to slow from hereon to about 5% a year instead of the near double-digit expansion of the past, the gap with the G7 economies would continue to narrow. China's working population has now peaked, but there are still hundreds of millions of rural workers and peasants to be

incorporated into the industrial machine; and China is still sucking up as much of the world's raw materials as it needs to sustain its expansion (Roberts, 2020a).

There is no other way to describe it: China is exceptional in the history of economic development over the last 250 years, surpassing even the earlier economic miracles of Asian economies like Japan or Korea. China's share of global income has increased from less than 4% in 1968 to near 20% in 2021, with most of that increase occurring only after 2002. Indeed, the change in China's share alone explains 87% of the entire decline in the share of the advanced economies in the period 1980–2015. India is nowhere compared to China (Figure 1).

As a result of this exceptional growth in output and incomes, nearly 900 million Chinese have been taken out of poverty (or \$1.90 a day as defined by the World Bank (2016)), while

Figure 2. Share of population living at below \$5.5 a day



Source: World Bank

other huge “developing” economies have made little progress (Figure 2). Even if we use a more realistic threshold for poverty of \$5.5 a day, China’s poverty rate is well below its peers.

GDP is but one measure of progress. A key indicator of human development is life expectancy. From life expectancy at birth in 1960 of just 44 years, China’s average life expectancy is now 77 years. It is catching up with the US, where there has been a fall since the end of the Great Recession. And China has outstripped all the other so-called large emerging economies (Figure 3) (Roberts, 2020b).

The World Bank has a Human Development Index (HDI) which “is a summary measure of average achievement in key dimensions of human development: a long and healthy life, being knowledgeable and having a decent standard of living” (UNDP, n.d.) (Figure 4).<sup>1</sup>

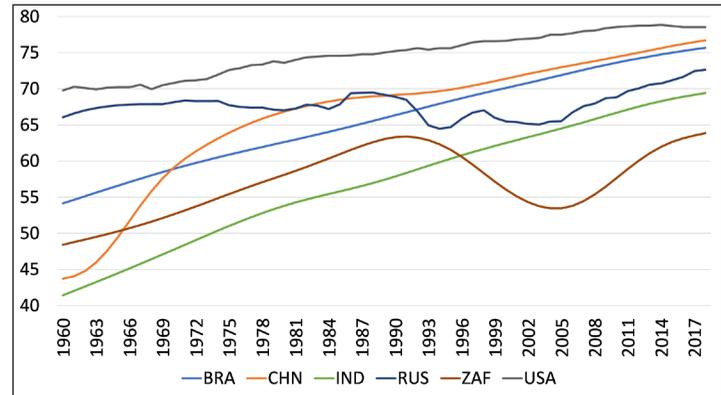
China’s HDI was 17% below the world average in 1990 and less than two-thirds of the advanced economies (OECD). It reached the world average in 2010 and just prior to the start of the COVID-19 pandemic was 3% above - and 85% of the OECD average. India is still 13% below the world HDI average. China is now on a par with Brazil in human development, with a population over six times larger.

### Models of Development

What explains this miracle? Several explanations that have been offered. This section looks at these explanations for China’s economic explosion.

The consensus view is based on the neoclassical model of growth. World Bank economist Lin (2012) argues that China’s miracle is down to a switch in economic policy under Deng Xiaoping in the late 1970s away from what he

**Figure 3. Life expectancy at birth in key emerging markets and US (yrs)**



Source: World Bank

calls a “comparative advantage defying strategy” (CAD) towards a “comparative advantage following strategy” (CAF). By this, he means that China’s leaders realized that the bias in state intervention towards developing heavy industry at the expense of agriculture or increasing capital inputs instead of using the plentiful supplies of cheap labor created distortions in the prices of products, weakened agricultural prices and rural incomes relative to industry, kept consumption too low and generated over accumulation with low capital productivity. This led to a range of “unviable” industries that could not compete in world markets. But under Deng, China took advantage of its real comparative advantage, the plentiful labor factor of production. Economic growth then took off and China competed successfully in world markets through a powerful combination of foreign investment and cheap labor (Roberts, 2020a).

In this view, previously Mao had pursued a wrong strategy. Under Mao, lack of industrialization, especially large heavy industries that supported military strength, was seen as the root cause of China’s then

**Figure 4. Human Development Index trends, 1990-2019**

	1990	2000	2010	2019	%Change
US	0.865	0.886	0.916	0.926	7.1
Russia	0.735	0.722	0.781	0.824	12.1
Brazil	0.613	0.685	0.727	0.765	24.8
China	0.499	0.588	0.699	0.761	52.5
India	0.429	0.495	0.579	0.645	50.3
World	0.601	0.644	0.699	0.737	22.6
OECD	0.786	0.835	0.874	0.900	14.5

*Source: World Bank Human Development Index.*

backwardness. China under Mao gave firms monopoly power in heavy industry sectors and subsidized them with lower-priced inputs, often creating shortages. It allowed China to establish modern industries, test nuclear bombs in the 1960s and launch satellites in the 1970s. But labor-intensive sectors were repressed and yet that was where it held a comparative advantage. Thus, efficiency was low and growth prior to 1979 was driven mainly by increased inputs not productivity (Roberts, 2020a).

But under Deng, the argument goes, China embarked on a “dual-track system”, introducing reforms in some areas while maintaining the status-quo in others. Farmers were one of the first beneficiaries. They were allowed to own their land again (collective farms were broken up) and could set prices for selling their production that exceeded quota obligations sold to the state at fixed prices. Meanwhile, private enterprises, joint ventures and foreign investment into labor-intensive sectors were allowed (Roberts, 2020a).

Under Mao, developing capital-intensive heavy industries was extremely costly and such industries could not hope to be viable

in an open, free market economy. Thus, the government had to distort the economic institutions and nationalize resources to sustain non-viable industry. The priority industries under this strategy were inconsistent with the comparative advantage determined by the factor endowments in those provinces. Mao’s “great leap-forward” strategy retarded the functions of market, impeded capital accumulation and hindered technology and productivity progress in the provinces. Therefore, it was imperative to replace the CAD strategy with a CAF strategy (Roberts, 2020a).

But is this neoclassical model a convincing explanation for the take-off of China from the 1980s onwards? China’s economic growth prior to the Deng “reforms” was not poor. China’s real GDP increased at an annual average of 6.7% from 1952-78, according to the World Bank, more than double that of the US during the same period. If we exclude the very first years of the People’s Republic from 1952 to 1962—i.e., between the completion of the unification of the continental territory and the period of the break with the Soviet Union—there was a recorded average of 8.2% growth up to 1978, despite the damaging impact of the Cultural Revolution (World Bank 2013a). The momentum of the Chinese economy was already strong before Deng.<sup>2</sup>

There is a Keynesian explanation as an alternative to the neoclassical market model. Here the key factor in China’s development was not a switch to a policy of “comparative advantage” under Deng towards using cheap labor that allowed China to “take off”. Instead, it was increased investment in machinery and technology i.e., greater capital inputs. Average growth rates of capital stock in China (excluding

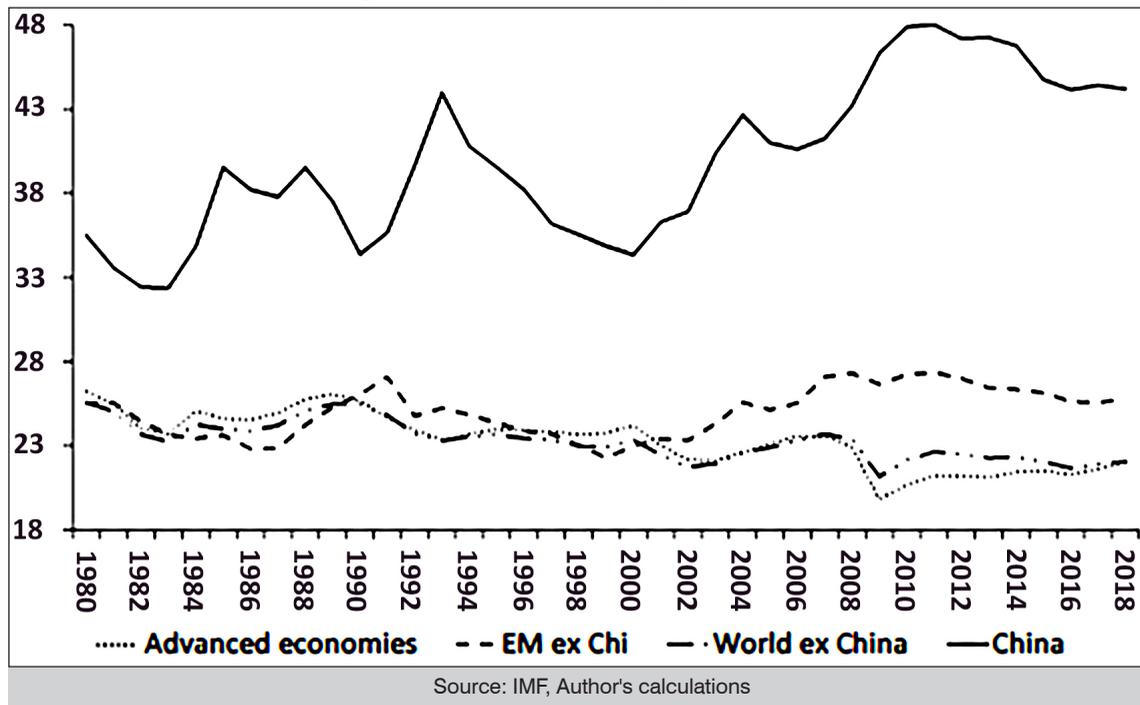
housing) rose 9.7% a year in 1952-78 and 10.9% in the post-Deng period (World Bank 2013a). It is this sustained high accumulation (Figure 5), enabled by surplus transfers from rural areas, that explains the success of industrialization and, to a large extent, the robust rate of GDP growth.

The Deng revolution was not to adopt CAF, as Lin claims, but to end administrative control of investment and replace it with Keynesian-style stimulus and management that would boost private sector investment. So, the Chinese model of development, or “socialism with Chinese characteristics”, is really a radical version of Keynesianism (Ross, 2013). It is different to Keynesian policies in the US and Europe, where budget deficits are utilized, low central bank interest rates are pursued with some forms of quantitative easing to drive

down long-term interest rates (Roberts, 2020a). In China, in contrast, relatively limited budget deficits have been combined with low interest rates, a state-owned banking system and a huge state investment programme. China pursued full blooded policies of the type recognizable from Keynes General Theory. It was Deng’s lack of ideology or commitment to either a market or state-led economic model (Deng: “I don’t care if the cat is black or white, so long as it catches mice.”)<sup>3</sup> that was the reason for China’s economic success after 1978.

A Marxist model of China’s economic development does not start from looking at the comparative advantage of factors of production and or at the rate of savings or investment in an economy. Marxist theory starts from the law of value. Marx’s law of value argues that, under capitalism, production is not to meet consumer

Figure 5. Investment to GDP (%) 1980-2018



needs but primarily to obtain profit. Value can only be created by the exertion of human labor. Surplus value (or profit) thus emerges when capitalist producers sell goods and services on a market for commodities for a price that is higher than the costs of production. That is possible because the value created by labor power is more than the value paid to labor power.<sup>4</sup> The issue is how much the law of value and private ownership dominates in the Chinese economy over planning for social needs based on state ownership of the means of production.

**China is home to 109 corporations listed on the Fortune Global 500 - but only 15% of those are privately owned.**

The Soviet Union restricted the law of value to the barest minimum through central planning, state ownership of industry and collectivization of agriculture (Roberts, 2020a). The switch from a centrally planned economy in the Soviet Union after 1990 into a market economy with foreign investment and privatization, was carried out overnight with disastrous consequences. But as Isabelle Weber (2021) has shown, after much debate, China's leaders after Mao did not go down the road of restoring capitalism through the "shock therapy" of privatization and the dismantling of state control. Instead, they eventually opted for an opening-up of the planned state-owned economy to capitalism, partly through privatization but mainly through foreign investment. This meant a gradual increase in the influence of the law of value into the Chinese economy; namely a bigger private

sector, the accumulation of capital for profit, with prices determined by markets and not by a plan; and finally, the opening up of "free trade" and foreign investment.<sup>5</sup>

**The State-Private Sector Balance**

Over the last 40 years, there has been a significant expansion of privately-owned companies, both foreign and domestic, with the establishment of a stock market and other financial institutions (Roberts, 2020a). Indeed, most observers, using official data, reckon that private sector enterprises constitute around 60-70% of GDP and assets now (Xinhua, 2018).

But this is misleading. Szamosszegi and Kyle (2011) analyzed the influence of the state sector in China. They defined the state sector as consisting of three main components: state-owned enterprises (SOEs) fully owned by the state through the State-owned Assets and Supervision and Administration Commission (SASAC); SOEs that are majority owners of enterprises that are not officially considered SOEs but are effectively controlled by their SOE owners; and entities owned and controlled indirectly through SOE subsidiaries based inside and outside of China (state-holding enterprises, SHEs). Urban collective enterprises and government-owned township and village enterprises (TVEs) also belong to the state sector but are not considered SOEs.<sup>6</sup> They concluded that: "When data are analyzed by sector, it becomes clear that SOEs and SHEs account for the majority of investments in most major sectors in the Chinese economy (Szamosszegi & Kyle, 2011: 16). "SOEs and SHEs were responsible for 40 percent of China's GDP and 45 percent of non-agricultural GDP"( Szamosszegi &

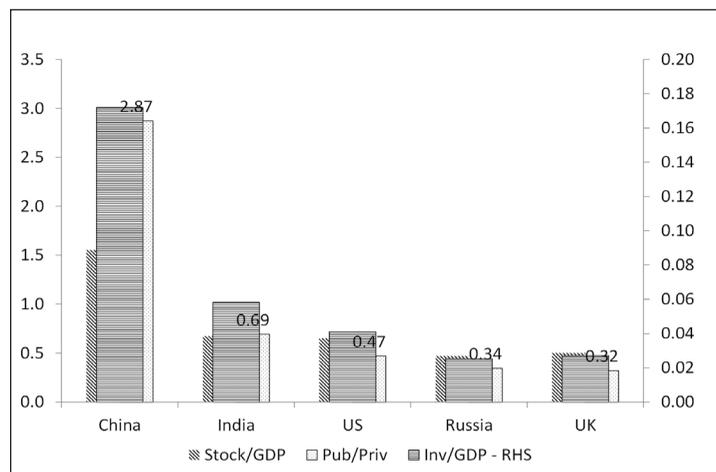
Kyle, 2011: 21) and “it is reasonable to conclude that by 2009 nearly half of China’s economic output could be attributable to either SOEs, SHEs, and other types of enterprises controlled by the SOEs indirectly. If the output of urban collective enterprises and the government-run proportion of TVEs are considered, the broadly defined state sector likely approximates 50 percent.” (Szamosszegi & Kyle, 2011: 25).

Similarly, Hsieh and Song (2015) found that “More than two-thirds of companies were directly or indirectly controlled by SASAC, but almost half of these firms are legally registered as private” (p. 12). When these private companies are redesignated as state-controlled, then SOEs still make up a substantial part of the national economy – roughly controlling 30 percent of the total secondary and tertiary assets, or over 50 percent of total industrial assets (Hsieh & Song, 2015).

The size and influence of the state sector in China is not replicated in any other major economy (Figure 6). The IMF public sector database (IMF, 2017) shows that public sector stock to GDP stands at 150%; well ahead of that other Asian miracle of the past, Japan; and three times larger than in India or the US. Public sector assets are over three times larger than the private sector, while in every other major economy, private sector assets are larger. Public investment in China is annually 16% of GDP compared to less than 4% in the US or the UK. China is home to 109 corporations listed on the Fortune Global 500 - but only 15% of those are privately owned. The major banks are state-owned and their lending and deposit policies are directed by the government (much to the chagrin of China’s central bank and other pro-capitalist elements) (Roberts, 2020a).

At the same time, the single party state machine infiltrates all levels of industry and activity in China. Fan, Morck and Yeung (2013) found that the CCP, by controlling the career advancement of all senior personnel in all regulatory agencies, all SOEs, and virtually all major financial institutions of SOEs and senior Party positions in all but the smallest non-SOEs, retains sole possession of Lenin’s Commanding Heights. “The CCP Organization Department (CCP OD) manages all senior promotions throughout all major banks, regulators, government ministries and agencies, SOEs, and even many officially-designated non-SOE enterprises. The Party promotes people through banks, regulatory agencies, enterprises, governments, and Party organs, handling much of the national economy in one huge human resources management chart.” (Fan, Morck & Yeung, 2013: 2). In listed companies, “each enterprise also has a Communist Party Committee, headed by a Communist Party Secretary. These advise the

**Figure 6. China's public sector dominates public sector stock to GDP; public/private asset ratio; public investment to GDP (%)**



Source: IMF Investment and Capital Stock database, Author's calculations. Averages for period 2010-14

CEO on critical decisions and are kept informed by Party cells throughout the enterprise that also monitor the implementation of party policies. Indeed, the Party Secretary plays a leading role in major decisions and can overrule or bypass the CEO and board if necessary.” (Fan, Morck & Yeung, 2013:8). Fraser Howie (2011) highlighted how ostensibly private companies are really “state overseen enterprises”. “All Chinese corporates are effectively either state owned enterprises or state overseen enterprises,” WorldView (Stratfor, 2018) found that “80-90% of SOEs are concentrated in vital or high-profit industries such as finance, power, energy, telecommunications and defence manufacturing. And these enterprises -particularly the roughly 100 centrally administered SOEs- have grown much bigger.” (par.4). Milhaupt and Zheng (2016) found that 95 out of the top 100 Chinese private firms and eight out of the top ten internet firms had a founder or de facto controller who was currently or formerly a member of central or local political organizations such as People’s Congresses and People’s Political Consultative Conferences. Also, state-controlled industrial associations actively supervise the operations of private firms in their respective industries and have retained much, if not all, of the power exercised by their state predecessors. Private firms are prodded or even forced to participate in state-led industrial restructuring efforts. The right of corporate ownership must yield to the state’s plans for restructuring an industry (Milhaupt & Zheng, 2015).

Similarly, when considering the control over foreign investment, leading Chinese

economist Yongding (2014) put it: “China has to maintain its capital controls in the foreseeable future. If China were to lose control over its cross-border capital flows, it could lead to panic and so capital outflows would turn into an avalanche and eventually bring down the whole financial system.” (par.14). It was these very restrictions that enabled China to expand investment and technology, employ swathes of labor and generally avoid control of its destiny by multinational combines, up to now (Roberts, 2020a).

**As capitalists try to raise the productivity of labor by shedding labor with technology and so lowering labor costs and increasing profits and market share, the overall profitability of investment and production begins to fall.**

And as David Kotz (2020) concluded: “Most of the current studies ignore the role of SOEs in stabilizing economic growth and promoting technical progress. We argue that SOEs are playing a pro-growth role in several ways. SOEs stabilize growth in economic downturns by carrying out massive investments. SOEs promote major technical innovations by investing in riskier areas of technical progress. Also, SOEs adopt a high-road approach to treating workers, which will be favorable to the transition toward a more sustainable economic model. Our empirical analysis indicates that SOEs in China have promoted long-run growth and offset the

adverse effect of economic downturns.” (Qi & Kotz, 2020: 112).

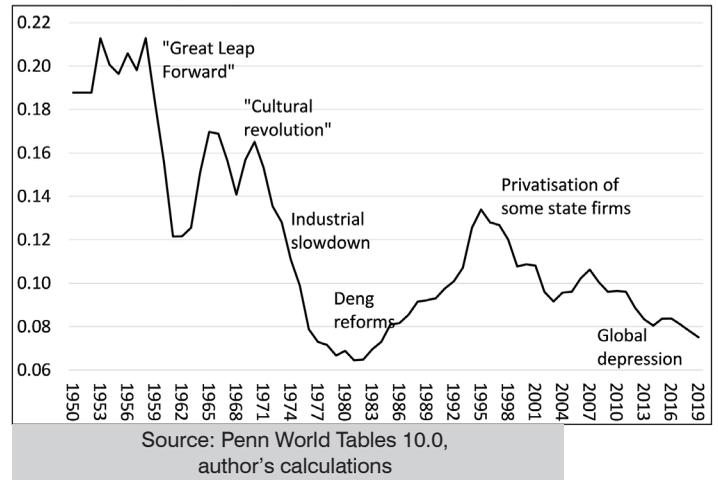
### Productivity versus Profitability

The Keynesian analysis correctly looks at investment in the means of production as the key driver of China’s development. But it misses a key barometer of economic development, the productivity of labor. In so far as there is a private sector in a developing economy and world markets, then there is a continual conflict between increased productivity and profitability, as there is in capitalist economies where the law of value dominates.

The Marxist model argues that the level of productivity will decide economic growth because it reduces the cost of production and enables a developing nation to compete in world markets. But in a capitalist economy where the law of value and markets operate, there is a contradiction: a long-term inverse relationship between productivity and profitability (Roberts, 2018). In a capitalist economy, companies compete with each other to raise profitability through the introduction of new technologies. But as capitalists try to raise the productivity of labor by shedding labor with technology and so lowering labor costs and increasing profits and market share, the overall profitability of investment and production begins to fall. Then, in a series of crises, investment collapses and productivity stagnates (Roberts, 2020c).

So, in any analysis of China’s model of economic development, we must consider the impact of its large capitalist sector and

Figure 7. China: internal rate of return

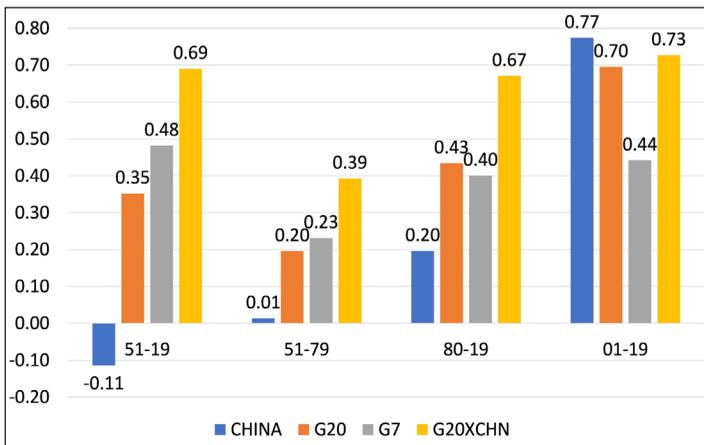


its relative contribution to the economy – and that means looking at the rate of profit on capital invested both by the state and capitalist sectors.

The empirical evidence reveals three phases of profitability in China (Figure 7). There was a general fall in profitability in the Mao period (when the capitalist sector was relatively small). Between 1978-95, there was an upswing in profitability as production expanded from the Deng reforms. But from the end of 1990s, there was a steady fall, as over-investment gathered pace and other economies, particularly in the developing world, went through a series of crises (Mexico 1994, Asia 1997-8, Latin America 1998-01). From about 2001 up to the Great Recession of 2008, there was a temporary rise in profitability as the world expanded at a credit-fueled pace and trade growth accelerated. However, since the Great Recession, the profitability of China’s burgeoning capitalist sector has been falling, along with investment and GDP growth.

But the downward tendency of the

Figure 8. Correlation between rate of profit and real GDP growth



Source: Penn World Tables 10.0; IRR series for profitability; real GDP growth calculations

rate of profit has not operated with the same effect in China as in the major capitalist economies. The state-dominated investment and capital stock in China means that there has been no strong correlation between the profitability of Chinese capital and real GDP growth since the formation of the People’s Republic until recently. In other words, the profitability of capital did not decide the level of investment in productive assets and economic growth (Roberts, 2021).

In the Mao period, there was no correlation between the rate of profit and real GDP growth. After Deng’s reforms in the 1980s, the correlation turned positive, although less positively correlated than in the rest of the G20 (capitalist) economies or the G7. However, since China entered the World Trade Organization and privatised sections of its state sector in the late 1990s and early 2000s, there has been a significant correlation between the profitability of Chinese capital and real

GDP growth. So, the Chinese economy has become increasingly vulnerable to the vagaries of its capitalist sector and to international capital (Figure 8) (Roberts, 2021).

Does this mean that China is heading for major slump along classic capitalist lines some time in this decade? Brazilian Marxist economists, Marquetti et al (2020) suggest that: “The larger profit rate explained the robust mechanization in the early stages of the process. But fast capital accumulation diminishes capital productivity and the profit rate. Then, the success in catching up must hinge on raising the saving and investment rates. It may further reduce capital productivity and the profit rate, putting the process at risk, which seems to be the case in China and India.” (p.330). The same warning is sounded by Marxist economist Minqi Li (2017): “if China were to follow essentially the same economic laws as in other capitalist countries (such as the United States and Japan), a decline in the profit rate would be followed by a deceleration of capital accumulation, culminating in a major economic crisis.” (Roberts, 2020c).

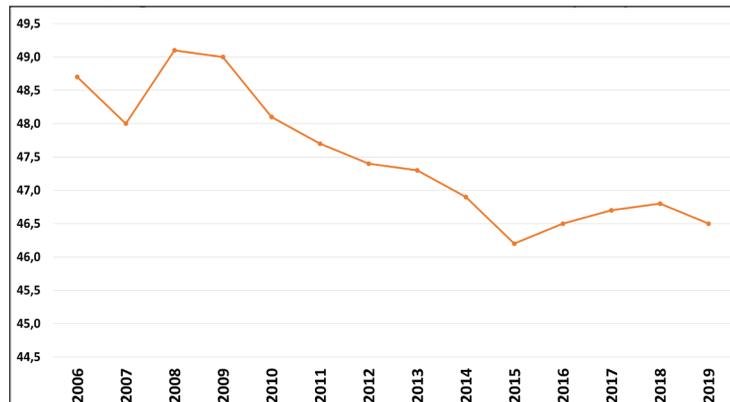
But does China follow “essentially the same laws as in other capitalist economies”? What has happened with the relative “liberalization” of the state-owned planned economy over the last 40 years is the encroachment of the law of value into new areas of the economy and with it, a huge rise in the inequality of wealth and income. China’s Gini income coefficient, an index of income inequality, according to Xie and Zhou (2014), rose from 0.30 in

1978, when the Communist Party began to open the economy to market forces, to 0.49 by 2008. This rise in income inequality was partly the result of the urbanization of the economy as rural peasants moved to the cities. Urban wages in the sweatshops and factories are increasingly left peasant incomes behind (not that those urban wages are anything to write home about when workers assembling Apple iPads are paid under \$2 an hour). But the rise in inequality was also partly the result of an elite controlling the levers of state power and allowing some Chinese (especially CPC members) to “get rich”. Urbanization has slowed since the Great Recession (from a peak annual rate of 3.75% before to just 1.3% after 2008) and China’s Gini inequality index has fallen back, if still at a high level by international comparison (Figure 9).

When it comes to inequality of personal wealth, China is not so unequal as many of its international peers (Credit Suisse, 2021). The Gini inequality of wealth ratio is much higher in Brazil, Russia and India, and higher in the US and Germany. According to the latest estimates, the top 1% of wealth holders in China take 31% of all personal wealth compared to 58% in Russia, 50% in Brazil, 41% in India and 35% in the US. This is a good measure of the economic power of the top elite and oligarchs in these countries (Figure 10) (Roberts, 2021).

Much is made of the number of billionaires in “socialist” China, but given the size of the population and GDP, the per

Figure 9. China: GINI coefficient of income inequality



Source: World Bank Gini Index.

capita ratio compared to the US and other major economies is relatively low. And the inequality of wealth in China is centred on property, not financial assets (so far), unlike the main capitalist economies of the G7 (Roberts, 2021). While over 90% of housing is privately owned, only 30% of stocks and shares are. That is because of the dominance of SOEs in corporate equity.

### The Growth Challenge

Almost half of China’s GDP growth since 1978 was from “capital deepening” (i.e. investment), about one-third was from increased labor productivity and the rest was from an expanding labor force (World Bank, 2019). China’s labor force is no longer expanding – indeed the opposite is the case (Figure 11). China’s population peaked in 2021 and the working age population is set to fall 20% by 2050, the aim of investment must be towards job creation, automation and productivity growth (Roberts, 2020c).

Figure 10. Gini coefficient and Wealth share of top 1%

	GINI coefficient							Wealth share of top 1%					
	2000	2005	2010	2015	2019	2020		2000	2005	2010	2015	2019	2020
Brazil	84.7	82.8	82.2	88.7	88.2	89	Brazil	44.2	45.1	40.5	48.6	46.9	49.6
China	59.9	63.6	69.8	71.1	69.7	70.4	China	20.9	24.3	31.4	31.5	29	30.6
France	69.7	67	69.9	70	69.9	70	France	25.7	21.1	21.1	22.5	22.4	22.1
Germany	81.2	82.7	77.5	79.3	77.9	77.9	Germany	29.3	30.5	25.9	32.3	29.4	29.1
India	74.7	81	82.1	83.3	82	82.3	India	33.5	42.2	41.6	42.5	39.5	40.5
Italy	60.1	59.5	63	67.1	66.4	66.5	Italy	22.1	18.3	17.3	22.8	21.8	22.2
Japan	64.7	63.2	62.5	63.5	64.2	64.4	Japan	20.6	19.1	16.9	18.2	17.8	18.2
Russia	84.7	87.2	90	89.5	87.3	87.8	Russia	54.3	60.3	62.6	63	57.1	58.2
United Kingdom	70.7	67.7	69.2	73.1	71.4	71.7	United Kingdom	22.5	20.8	23.8	25.2	22.4	23.1
United States	80.6	81.1	84	84.9	85.1	85	United States	32.8	32.7	33.3	34.9	35	35.3

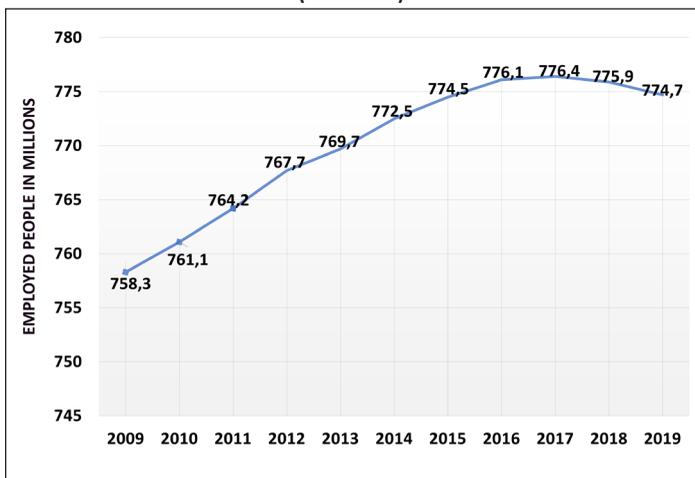
Source: James Davies Rodrigo Lluberias and Anthony Shorrocks, Credit Suisse Global Wealth Databook 2021

The latest census showed its population at 1.41bn up just 5.4% from 1.34bn in 2010 — the lowest rate of increase between censuses ever. Those over-65s now make up 13.5% of the population, compared with 8.9% in 2010 when the last census was completed (Roberts, 2021).

Thus, any idea that China can grow

through the use of cheap labor (if it ever did, as explained above) is over. Real GDP growth now depends on capital investment and particularly hi-tech investment aimed at raising the average level of labor productivity. China’s average productivity level is currently just 20% of the US (Figure 12).

Figure 11. Number of employed people in China from 2009 to 2019 (in millions)



Source: International Labour Organisation, ILOSTAT explorer.

What are the prospects for China’s economic growth from hereon and will it continue to close the gap with the US? A program launched in 2015, Made in China 2025, aims to make the country competitive within a decade in ten industries, including aircraft, new energy vehicles, and biotechnology (Roberts, 2017). According to a report by US investment bank, Goldman Sachs, China’s digital economy is already large, accounting for almost 40% of GDP and fast growing, contributing more than 60% of GDP growth in recent years (Roberts, 2021). “And there is ample room for China to further digitalize its traditional sectors.” (Goldman Sachs, 2022).

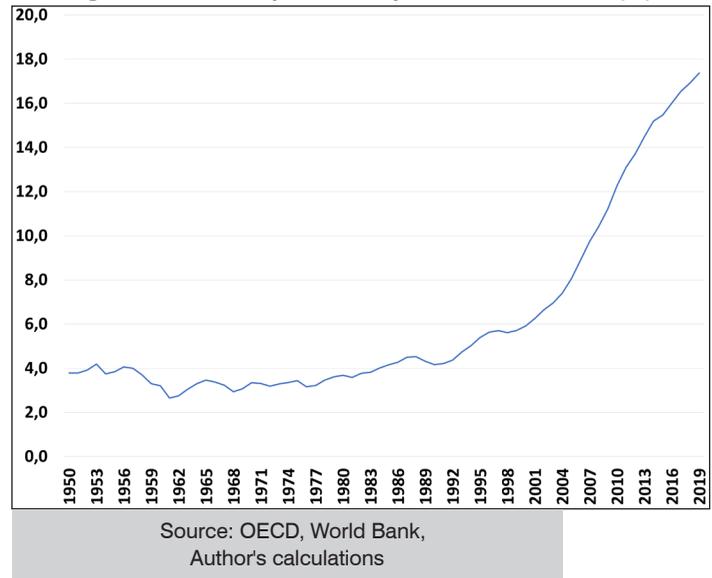
But there is a long way to go. The US

economy remains highly productive even compared to other advanced economies. The US remains the global R&D leader, accounting for nearly 30% of the world total. Data on patents granted—either total or specifically abroad—show that the US share has held roughly steady at around 20%. China's share of total patents granted has risen very rapidly over the last decade to over 20%, but most patents granted to Chinese innovators have come from the domestic patent office, with far fewer granted abroad (Statista, 2021).

Knowledge and technology intensive (KTI) industries contribute 38% of US GDP, the highest of any major economy. But China is not far behind at 35%, extremely high for a developing economy. While the US is the largest producer of high-tech goods, its share of world exports has shrunk considerably while China's share has grown. China's R&D intensity, measured by R&D spending as a percentage of GDP, was 2.1 % of GDP versus 2.8% for the US. Indeed, China has seen an almost 160% increase in 'intellectual property' receipts from the world in the past decade, compared with an 11% increase for the US, which indicates China's increased knowledge diffusion throughout the world (Santacreu & Mackenzie, 2019).

China's information technologies (IT) share of GDP climbed from 2.1% in 2011Q1 to 3.8% in 2021Q1. Although China still lags the US, Europe, Japan and South Korea in its IT share of GDP, the gap has been narrowing over time (Roberts, 2021). The global innovation index (WIPO, 2019) shows that China's innovation capacity has

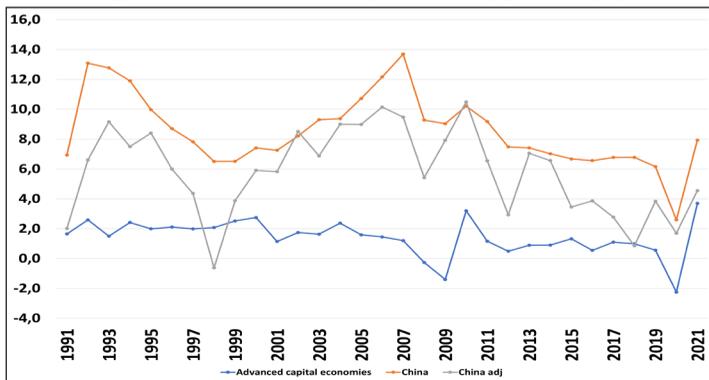
Figure 12. Ratio of productivity of labour China-US (%)



been improving steadily. China is moving up in cross-country rankings from 29 in 2011 to 17 in 2018 and is now the highest-ranking middle-income country and the first middle-income country to join the 20 most innovative (WIPO, 2019). China has also redoubled efforts to build its own semiconductor industry. The country buys about 59% of the chips sold around the world. To rectify this, Made in China 2025 earmarks \$150 billion in spending over ten years.

Then there is China's Belt and Road Initiative<sup>7</sup> (BRI), a global development strategy involving infrastructure development and investments in 152 countries and international organizations. Contrary to views of Western economists, the BRI is not aimed primarily to make profits. It is to expand China's economic influence globally and extract natural and other technological resources for the

Figure 13. Annual labour productivity growth (%)



Source: Conference Board, adjusted by CB

domestic economy. And the BRI is not, as some Marxist economists in the West argue (Harvey, 2016), the product of the need to absorb “surplus capital” at home, similar to the export of capital by the capitalist economies before 1914 that Lenin presented as key feature of imperialism. China is not investing abroad through its state companies and banks because of “excess capital” or even because the rate of profit in state and capitalist enterprises has been falling (Roberts, 2017). Indeed, China looks to expand its technological prowess and its influence globally through the Initiative to the likes of African and other states. And it is able to do so because its economic model does not rest on the falling profitability of its admittedly sizeable capitalist sector. An Institute of International Finance (IIF) report found that China is now the world’s largest creditor to low-income countries.

Even if you accept the downward adjustments made by the Conference Board to China’s official productivity record (Wu, 2014), China still achieved an over 4% a year productivity growth in the last decade,

some four times faster than in the advanced capitalist economies (Figure 13) (Roberts, 2021).

So even if the labor force does not grow in this decade (or even declines by say 0.5% a year), real GDP growth in China is still going to be at a minimum of 3.5% a year, and much more likely to be 5-6% a year, close to the Chinese government’s forecast in its latest five-year plan (Roberts, 2021). Arthur Kroeber, head of research at Gavekal Dragonomics, has put it (Kroeber, 2021): “Is China fading? In a word, no. China’s economy is in good shape, and policymakers are exploiting this strength to tackle structural issues such as financial leverage, internet regulation and their desire to make technology the main driver of investment.” Kroeber concludes that: “on a two-year average basis, China is growing at about 5 per cent, while the US is well under 1 per cent. By the end of 2021 the US should be back around its pre-pandemic trend of 2.5 per cent annual growth. Over the next several years, China will probably keep growing at nearly twice the US rate.”

### Debt and COVID-19

Much is made of China’s rising debt levels as an obstacle to further growth and even leading to a financial crash. Mainstream economists have been forecasting for decades that China is heading for a debt crash of mega proportions. It’s true that according to the IIF, China’s total debt reached 317% of GDP (Lee, 2021). But most of the domestic debt is owed by one state entity to another; from local government to state banks, from state banks to central government. When that is all

netted off, the debt owed by households (54% of GDP) and corporations is not so high, while central government debt is low by global standards. Moreover, external dollar debt to GDP is very low (15%) and indeed the rest of the world owes China way more: 6% of global debt. China is a huge creditor to the world and has massive dollar and euro reserves, 50% larger than its dollar debt. A financial crisis is ruled out as long as the state controls the banking system, but there are dangers because of the recent attempts to loosen it up for private and foreign institutions to enter the arena (e.g. there are a growing number of bankruptcies in speculative financial entities) (Roberts, 2021).

### **A December 2020 meeting of the CPC Politburo vowed to end what it called a “disorderly expansion of capital”.**

Chinese leaders want to curb the debt level. Controlling the debt level can come in two ways; through higher growth from productive sector investment to keep the debt ratio under control and/or by reducing credit binges in unproductive areas like speculative property. The debt problem has been caused by the Chinese authorities having leant ever more towards expansion through the capitalist sector and particularly into unproductive sectors like property and finance at the expense of productive sectors like manufacturing technology, residential housing, public education and health (Roberts, 2021). The real estate sector now

accounts for 13% of the economy from just 5% in 1995 and for about 28% of the nation’s total lending (Zhou, 2021).

President Xi Jinping said, “Houses are built to be inhabited, not for speculation.” But the government allowed capitalist speculation in property so that 15% of all apartments currently are owned as investments, often not even connected to electricity supply. This property speculation was fueled by credit funded by the state banks but also by “shadow banking” entities. This sort of speculation wasted resources and did not direct investment into areas like reducing CO2 emissions to meet the government’s declared aim to make China a “clean economy” (Roberts, 2020c).

A December 2020 meeting of the CPC Politburo vowed to end what it called a “disorderly expansion of capital”. The capitalist sector had got too big for its boots. For instance, the capitalist Ant Group was even aiming to take over household lending from the state banks. Ant and other Chinese capitalist tech and media companies were increasingly engaged in typically “Western”-type mergers, secret contracts and other financial irregularities. China’s regulators had been turning a blind eye to all this for years. Moreover, the financial faction in China’s leadership had got agreement to allow foreign investment banks to set up majority-owned companies in China for the first time, with the eventual aim of “freeing up” the finance sector from state control and allowing unregulated cross-border capital flows. In other words, China was set to become a full member of international

finance capital. The authorities were also allowing uncontrolled cryptocurrency mining and operations in the country (Roberts, 2021).

**The move to investment in technology rather than heavy industry and infrastructure is key to China's sustainable growth rate and to reducing the rise in greenhouse gas emissions, where China is now the world leader.**

But the COVID-19 pandemic changed all this. There was growing public anger at how the rich in China, as in the rest of the major economies, have gained hugely from the financial and property price boom during the pandemic, while the majority struggled through the lockdowns and faced increased costs in education, health and housing and a serious risk to decent jobs for graduates and others (Roberts, 2021).

The contradictions of China's state-controlled economy alongside a large and growing capitalist sector intensified during the COVID-19 pandemic. If this were allowed to continue, it would begin to open up schisms in the CP and the party's support among the population. Xi wants to avoid another Tiananmen Square protest in 1989 after a huge rise in inequality and inflation under Deng's 'social market' reforms<sup>8</sup> (Roberts, 2021).

Education, health and housing are the "three mountains" that all Chinese households aim to climb to get a better life – and yet costs for these were spiraling while the rich made millions.

The Chinese leadership has been forced to zigzag back from "disorderly expansion" and respond to the public backlash by launching a programme for "common prosperity" (Yao, 2021) and through a crackdown on the consumer tech and media giants and by introducing curbs on private education and speculative property development (Roberts, 2021). It has also banned cryptocurrency operations (Sigalos, 2021).

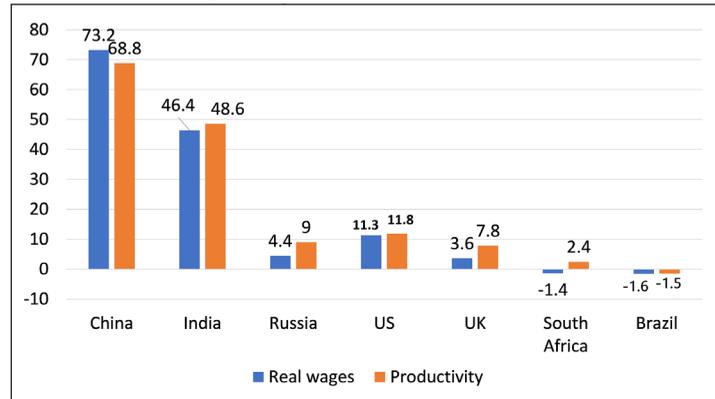
Xi's crackdown on the billionaires and his call for reduced inequality is yet another zig in the zigzag policy direction of the Chinese bureaucratic elite: from the early years of rigid state planning to Deng's "market" reforms in the 1980s; to the privatization of some state companies in 1990s; to the return to firmer state control of the "commanding heights" of the economy after the global slump in 2009; then the loosening of speculative credit after that; and now a new crackdown on the capitalist sector to achieve "common prosperity". These zigzags are wasteful and inefficient. They happen because China's leadership is not accountable to its working people; there are no organs of worker democracy. There is no democratic planning; only the 100 million CPC members have a say in China's economic future, and that is really only among the top (Yang, Novokmet, & Milanovic, 2019). The other reason for the zigzags is that China is surrounded by imperialism and its allies both economically and militarily. Capitalism remains the dominant mode of production outside China, if not inside. 'Common prosperity' cannot be achieved properly while the forces of capital remain inside and outside China (Roberts, 2021).

But there is no reason for China to abandon its growth model based on state-led investment in technology to compensate for the decline its workforce. The move to investment in technology rather than heavy industry and infrastructure is key to China's sustainable growth rate and to reducing the rise in greenhouse gas emissions, where China is now the world leader (Roberts, 2021). Some Western radical and Marxist economists advocate a switch from investment to consumption to expand the economy and reduce inequality (Pettis, 2021). But this semi-Keynesian solution has no validity. China's stupendous growth up to now has not been achieved by getting consumption demand to boost the economy. That is the solution applied in Western capitalist economies and all that has achieved growth rates of just around 2% a year.

Anyway, it is not true that the Chinese model has restricted consumption. Consumption may have been relatively low internationally as a share of GDP, but that is due to the fast pace of investment expansion and urbanization in the last 40 years. Even so, real consumption growth has been 8.8% annually for over two decades — the highest of any major economy. Strong investment and increased productivity have enabled average real wages in the last decade to rise faster than other major economy and even faster than productivity (Figure 14).

Indeed, consumption is rising much faster in China than in the G7 because investment is higher. One follows the other; it is not a zero-sum game. And not all consumption has to be 'personal'; more important is 'social consumption' i.e. public services like health,

**Figure 14. % change in productivity and real wages since end of Great Recession**



Source: Penn World Tables 10.0, author's calculations

education, transport, communications housing; not just motor cars and gadgets. Increased personal consumption of basic social services is what is necessary. And it is here that China needs to act (Roberts, 2021).

### China versus the US

Part of the growth challenge for China over the next few decades is the intensifying trade and technology 'cold war' with the US and its allies that threatens to become a hot one. This is the geopolitical issue of the 21st century. The US leaders have made that clear, as Commerce Secretary Wilbur Ross under Trump put it: the Made in China plan was an "attack" on "American genius." (Woodward, 2018).

Originally from President Nixon onward, the US aimed to "engage" with China and swamp the economy with its multi-nationals. But China has not played ball; indeed, its SOEs have become serious rivals to America's conglomerates. So, the US has switched to

a policy of “containment”. The aim now is to weaken China’s economy and destroy its influence and perhaps achieve “regime change”. Blocking trade with tariffs; blocking technology access for China and their exports; applying sanctions on Chinese companies; and turning debtors against China; this may all be costly to imperialist economies. But the cost may be worth it if China can be broken and US hegemony secured (Roberts, 2021).

**The current leadership has pledged to continue with its state-directed economic model and broaden out its focus on economic growth to include targets for environmental protection, innovation and self-sufficient development.**

### **The Transition to Socialism**

The debate within the CPC leadership continues about which way to take China: towards a full market economy open to the winds of global capitalism or to stay as they are. But the current CPC leaders under Xi plan no change in the general philosophy of “socialism with Chinese characteristics” and thus the maintenance of the dominance of the state sector. Also, there is no intention of moving towards “democracy” or control of even local legal systems and decisions by the people. On the contrary, the leadership has set up even more repressive state security services to curb any dissidence, either from capitalists

or the general population.

So how can we characterize China in 2022? China is not a capitalist economy, let alone an imperialist one (Carchedi & Roberts, 2021). In Marxist terminology, it is a “transitional economy”, namely one in between capitalism and socialism, but presumably heading towards socialism. That transition involves the loss of state power by capital and its “armed bodies of men” (Marx, 1875). The transitional economy has common ownership of the bulk of the means of production and credit and the planning of investment and production rather being than left to market forces. The aim is to raise the level of technology and productivity of labor in order to reduce working hours and gradually end scarcity in social needs. There should be a gradual replacement of commodity production with direct production for use; the gradual ending of wage labor and money, both as a means of exchange and as a store of value; and what Marx and Engels called the progressive “withering away” of state power (armies, police, officialdom).

On these criteria, China is clearly not socialist. China is a transitional economy as capitalist state power has been abolished and capitalist production reduced, but China does not meet the other criteria to make a transition to socialism: in particular, there is no equalization or restrictions on incomes and personal wealth; and the large capitalist sector is not steadily diminishing, on the contrary. But on the other hand, capitalists do not control the state machine, the Communist party officials do; the law of value (profit) and markets do not dominate investment, the large state sector does; and that sector (and

the capitalist sector) are under an obligation to meet national planning targets (at the expense of profitability, if necessary) (Roberts, 2021).

China is at a crossroads in its development. Its capitalist sector has deepening problems with profitability and debt. The current leadership has pledged to continue with its state-directed economic model and broaden out its focus on economic growth to include targets for environmental protection, innovation and self-sufficient development (Roberts, 2020c). This is all part of the strategy of developing a “dual circulation” economy in which China will develop domestic demand and self-sufficiency while the rest of the world remains stalled by coronavirus and economic crises (Roberts, 2020b). China’s leaders are determined to resist the new policy of “containment” emanating from the “liberal democracies”. The trade, technology and political “cold war” is set to heat up over the rest of this decade, while the planet heats up too (Roberts, 2020c).

But as the components of a transitional economy from capitalism to socialism reveal, this qualitative change does not mean or guarantee that China will progress “towards socialism”, as the experience of the 70 years of the Soviet Union confirms. China is still far away from that. Indeed, the forces of imperialism from without and of the law of value within from domestic capitalist sectors suggest that China is in a “trapped transition” which could eventually be reversed, as it proved for the Soviet Union. That can only be avoided if transitional economies emerge in other key countries globally. 🌸

## Notes

1 The HDI is the geometric mean of normalized indices for each of the three dimensions.

2 The official GDP figures for China are disputed by the Conference Board (incorrectly in my view), but even the CB recognises an annual GDP growth rate from 1953-78 of 4.5-5.0% see (Roberts, 2020b).

3 “Because in the US and Europe, of course, it is held that the colour of the cat matters very much. Only the private sector coloured cat is good, the state sector coloured cat is bad. Therefore, even if the private sector cat is catching insufficient mice (i.e., the economy is in severe recession), the state sector cat must not be used to catch them. In China, both cats have been let loose – and therefore far more mice are caught.” (Ross, 2014).

4 For more on Marx law of value see (Roberts, 2018).

5 The decision of the Chinese leaders for a gradual move to capitalism was anything but a foregone conclusion or a “natural” choice predetermined by Chinese exceptionalism, Weber claims. China’s change was carved out in a fierce debate. Some argued for shock therapy-style liberalization while others preferred gradual marketization beginning at the margins of the economic system. Indeed, on at least two occasions, Deng opted for a “big bang” in price reform, but then stepped back from the brink.

6 The authors commented: “A common mistake is to assume that any entity that is not an SOE belongs to the private sector. There is a state sector, which consists of SOEs, and a non-state sector, which consists of firms with other forms of ownership, including pure private ownership by domestic and foreign natural persons and mixed ownership entities in which SOEs are part owners and/or controlling. For the vast majority of these listed firms, the largest shareholders are SOEs.” (Szamosszegi & Kyle, 2011: 10).

7 “Belt” refers to the overland routes for road and rail transportation, called “the Silk Road Economic Belt”; whereas “Road” refers to the sea routes, or the “21st Century Maritime Silk Road”.

8 As Xi put it in a long speech in July to party members: “Realizing common prosperity is more than an economic goal. It is a major political issue that bears on our Party’s governance foundation. We cannot allow the gap between the rich and the poor to continue growing—for the poor to keep getting poorer while the rich continue growing richer. We cannot permit the wealth gap to become an unbridgeable gulf. Of course, common prosperity should be realized in a gradual way that gives full consideration to what is necessary and what is possible and adheres to the laws governing social and economic development. At the same time, however, we cannot afford to just sit around and wait. We must be proactive about narrowing the gaps between regions, between urban and rural areas, and between rich and poor people. We should promote all-around social progress and well-rounded personal development, and advocate social fairness and justice, so that our people enjoy the fruits of development in a fairer way. We should see that people have a stronger sense of fulfilment, happiness, and security and make them feel that common prosperity is not an empty slogan but a concrete fact that they can see and feel for themselves.” (Xi, 2021). As Xi perceptively admitted in this speech about the demise of the Soviet Union: “The Soviet Union was the world’s first socialist country and once enjoyed spectacular success. Ultimately however, it collapsed, mainly because the Communist Party of the Soviet Union became detached from the people and turned into a group of privileged bureaucrats concerned only with protecting their own interests (my emphasis). Even in a modernized country, if a governing party turns its back on the people, it will imperil the fruits of modernization.”

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# Deciphering the Chinese Economic Miracle: Lessons for the Developing World



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## ABSTRACT

Despite enormous historical, demographic, geographical, and geopolitical adversities, China has enjoyed unprecedented economic success in world history. This article aims to decipher the formula behind China's historic economic success and distill policy lessons for developing countries in their endeavors to reach an advanced stage of economic development. Based on descriptive case study and statistics, the article suggests that the Chinese economic miracle can be explained by a four-fold formula: a) devising an autocratic economic model aspiring to improve national autonomy and cushion the impact of foreign interference, b) insisting on socialism and the leadership of the Communist Party of China (CPC), which allows for strategic coherence and long-term planning to overcome free-market anarchy, c) creating a state-driven industrial base fueled by national science and technology policies, and d) adopting a balanced approach to development centered on attaining a higher sociocultural and ecological quality of life. The findings also help to debunk the myths surrounding the Chinese miracle, particularly the "cheap labor thesis", the "technology theft thesis", the "foreign investment and capitalist integration theses", the "imperialism thesis", and the "Mao-the-monster thesis".

**Keywords:** Chinese miracle, economic development, Mao Zedong Thought, socialism with Chinese characteristics, Xi Jinping Thought

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THE "CHINESE MIRACLE" HAS BECOME a widely used term in development studies, inspiring developing countries to achieve high levels of prosperity, living standards, and stability over the last decade. The popularity of this term can be explained in large part by the fact that China has enjoyed unprecedented economic success in world history (Zakaria, 2011; Gürcan 2021a), despite enormous historical, demographic, geographical, and geopolitical adversities. China was one of the world's poorest countries before the socialist revolution in 1949. In the early revolutionary era, China struggled much to overcome its crippling semi-colonial legacy characterized by the medieval conditions of an agricultural economy and the weakness of its industrial base. History aside, China is the largest

country by population size, which currently accounts for 22% of the world's population. This goes hand in hand with China's resource scarcity problem as a structural adversity constraining its development potential. China possesses only 7% of the world's arable land and freshwater resources and 8% of the world's natural resources. Furthermore, only 19% of its surface area is suitable for human habitation, and 65% of its surface area is rugged. This severely cripples China's farming capabilities and facilitates ethnic heterogeneity as a potential impediment to political cohesion (Morton, 2006; Naughton, 2018). Another adversity threatening China's economic development concerns geopolitical circumstances. Cases in point are how China's membership in the United Nations was stalled

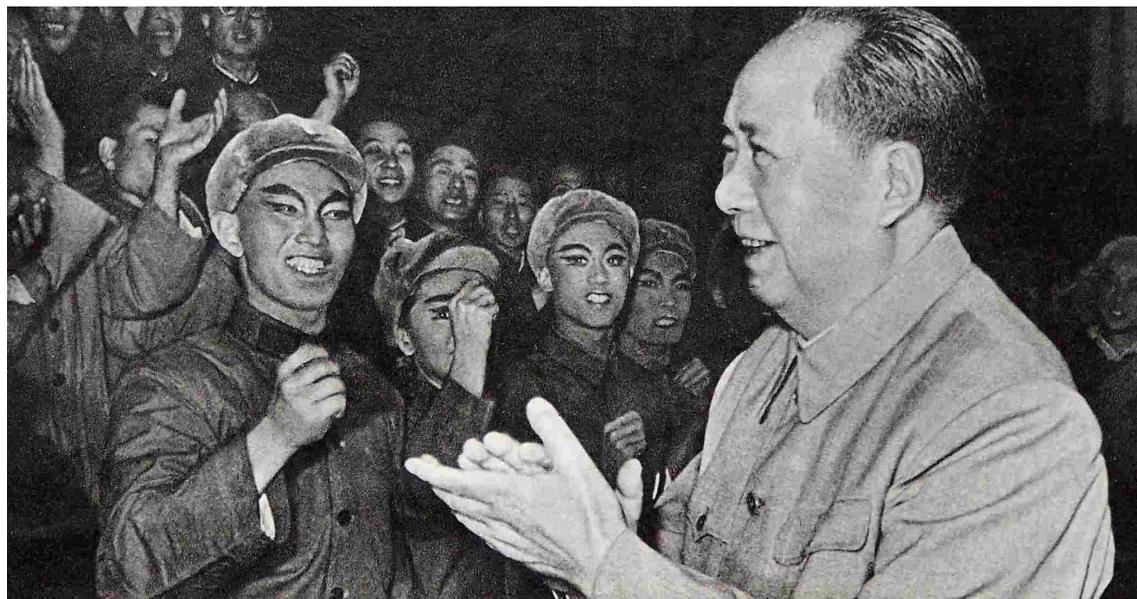
until 1971, and the US resorted to military interventions in China's neighboring regions to suffocate the revolution. The current geopolitical circumstances find their sharpest expression in the current US containment strategy and the US-led trade and technology war against China (Gürcan, 2019; Gürcan, Kahraman & Yanmaz, 2021).

**Since 1979, China is the only country that has remained untouched by any economic crisis. The 1979-2018 period testified to an average economic growth rate of 9.4% in the lead of the CPC, making China the world's second-largest economy, top producer, and the leading exporter of technological goods.**

Despite such adversities, China has developed an exemplary model of economic development that inspires much of the developing world. Since 1979, China is the only country that has remained untouched by any economic crisis. The 1979-2018 period testified to an average economic growth rate of 9.4% in the lead of the CPC, making China the world's second-largest economy, top producer, and the leading exporter of technological goods (Hu, 2020). By 2015, China came to assume the global production of 40% of washing machines, 50% of textiles, 60% of buttons, 70% of shoes, 80% of televisions, and 90% of toys. Recently, China has made significant progress in producing higher-value added products in the computer, aviation, and medical technology sectors, among others. One

should also note that China has risen to status of the world's largest lender to the developing world, second-largest investor in foreign direct investment (FDI), and top leader in green bonds and credits. China's contributions to green finance also bring to mind China's global leadership in sustainable development. China has recently emerged as the world's top leader in green transportation, the largest producer of electric buses and the largest market for electric vehicles and bikes. Similarly, China's status as the world's top producer of solar, wind and hydroelectric power is closely related to its reputation as the world's top investor in sustainable energy technology (Gürcan, 2021a). Besides China's historic success in economic and environmental development, one should also note that the Chinese economic miracle is credited for 70% of global poverty eradication between 1990 and 2015 (Gardner, 2018).

This article aims to decipher the formula behind China's historic economic success and offer fundamental hints to guide developing countries in their endeavors to reach an advanced stage of economic development. The article suggests that the Chinese economic miracle can be explained by a four-fold formula: a) devising an autocentric economic model aspiring to improve national autonomy and cushion the impact of foreign interference, b) insisting on socialism and the leadership of the CPC, which allows for strategic coherence and long-term planning to overcome free-market anarchy, c) creating a state-driven industrial base fueled by national science and technology policies, and d) adopting a balanced approach to development centered on attaining a higher sociocultural and ecological quality of life. This formula is derived using the method of descriptive case study, which



Mao Zedong, the founder of the People's Republic of China. (CGTN, 2017)

is a research method that consists of an intense historical study of “a single instance of an event or phenomenon” by “get[ing] the history down for the possible benefit of later policymakers” and drawing “memorable analogies that later practitioners use to identify... strategies that work” (Odell, 2001: 162). The present article provides an intense study of the phenomenon called the “Chinese economic miracle” by distilling policy lessons for developing countries. It is structured in three sections. The first sheds light on the Mao Zedong era, which was characterized by a centrally planned economy and a big push strategy, whereas the second addresses the Deng Xiaoping and Jiang Zemin eras with a special focus on reform and opening-up. The subsequent section shifts the focus to the Hu Jintao and Xi Jinping eras by revisiting the success of China’s social development strategies. It also points to the leading role of the state in China’s economic development and its contribution to innovation and technology.

### The Legacy of Mao Zedong’s “Big Push” Strategy

The roots of the Chinese economic miracle can be traced back to the early phase of the Chinese revolution under the leadership of Mao (1949-1976). Mao’s leadership adopted what might be called a “big push strategy” for rapid industrialization to -catch up with Western powers that once succeeded in turning China into a semi-colony. This strategy relies on central planning, by which the state “channel[s] the maximum feasible investment into heavy industry” and “mobilize[s] saving and investment, sacrificing consumption today in order to benefit future generations” (Naughton, 2018: 65). Indeed, the big push model -as an economic term that can be generalized to other countries- found its sharpest expression in the Chinese context under the name “Great Leap Forward”, which was part of China’s Second Five Year Plan (1958-1962). This being

said, the general trend that characterized the period between the First Five Year Plan and the Fifth Five Year Plan (1953-1980) complied with the Big Push Model for the most part:

In 1953, the central government launched its first FYP (1953-1957), which aimed at turning China from an agricultural country into an advanced industrial country with a focus on the development of the heavy industry. The next five FYPs put emphasis on agricultural and industrial development. The second FYP (1958-1963) carried on the industrial development centered on heavy industry. The major tasks of the third one (1966-1970) were to develop agriculture and strengthen basic industries. The fourth (1971-1975) set goals for output of agriculture and industry and investment in infrastructure. The fifth FYP (1976-1980) set up a goal of building up an independent and relatively complete industrial system (CGTN, 2020).

A word of caution is warranted at this point before proceeding further. History as an academic discipline provides us with a powerful tool to learn from humanity's past struggles and successes (Gürcan, 2008). However, judging past actions by today's moral standards would nullify the scientific value of history, setting the ground for misleading analogies. The case of China under Mao's leadership is not immune to this principle. As Barry J. Naughton argues, therefore, "at the time of the birth of the PRC, many people believed that this [big push strategy] was the best approach to development", despite human costs (Naughton, 2018: 65). Nevertheless, the ultimate result of this strategy was a historic economic success, which can inform today's policymakers about the use of public-driven or state-guided economic development models to be redesigned in conformity with today's moral standards. One should also note that China's

current economic policies are still grounded on Mao's legacy of big-push industrialization.

Mao's strategy of economic development

### **Mao's strategy of economic development draws its strength from the principles of "socialism with Chinese characteristics"**

draws its strength from the principles of "socialism with Chinese characteristics" (有中国特色的社会主义). These principles proceed from the assumption that universal models or widely accepted standards "must be combined with specific national characteristics and acquire a definite national form if it is to be useful" (Mao, 1967: 61), which also applies to the usefulness of economic development strategies. With these principles in mind, Mao calls for abandoning dogmatic and bookish interpretations by "seeking truth from facts" while learning from past mistakes and successes. Mao's "socialism with Chinese characteristics" is thus a call for integrating socialist principles with China's historical peculiarities and changing realities (Mao, 1971; Gürcan, 2008). This framework later encouraged Chinese policymakers to create an endogenous economic model based on socialism (Naughton, 2018; Currie-Alder, 2014; Harrison, 2020).

Mao's big push strategy encouraged heavy investments in both physical and human capital, which led not only to significant scientific, technological, and industrial advances but also to the inclusion of a majority of the Chinese population in the public health and education systems for the very first time in China's history. Scientists and engineers were mobilized under a centralized science and technology system,



Former president Hu Jintao greets former leader Jiang Zemin during a ceremony at the Great Hall of the People in Beijing on Sunday, October 9, 2011, to mark the centennial of the 1911 Revolution. (China Daily, 2011)

providing the human capital necessary for big push industrialization (Naughton, 2018; Currie-Alder, 2014; Harrison, 2020). China's First Five-Year Plan was launched in 1953. Before implementing this plan in 1952, China was predominantly an agricultural country, and the contribution of industry to Gross Domestic Product (GDP) was only 20%, which used to take the smallest share of the economy. In the 1952-1978 period, the Chinese economy grew by 6% on average, whilst the average growth rate of industrial output was 11.5% (Naughton, 2018; Chan, 2018; Dollar, Huang & Yao, 2020). By the second half of the 1970s, the big push strategy and its policy of high savings and limited individual consumption resulted in industry overtaking agriculture and the service sector becoming the largest sector with a share of 46% in the economy (Dollar, Huang & Yao, 2020). As a result of social advances in public health and education, China's average life expectancy rose

from 25 in 1931 to 63-66 by 1956 (Kiely, 2015).

### **The Reform and Opening-Up Strategy in the Post-Mao Era**

The policymakers of the early phase of the Chinese Revolution were experienced revolutionaries who had successfully carried out a protracted revolutionary struggle, but they lacked experience and knowledge in political and economic statecraft. Mistakes were thus unavoidable in the process of exploration through trial and error. Indeed, it is difficult to over-emphasize the substantial gains from the big push strategy, which served as a springboard for the Chinese economic miracle to build a strong physical and human infrastructure for socialist construction. In the late 1970s, however, it became apparent that policymakers' tendency towards impetuosity and rash advances for rapid industrialization was not sustainable in the longer term. Moreover, the

late 1970s and early 1980s testified to the exhaustion of the Soviet model of development due to a stagnating Soviet economy coupled with the alienating effects of the Sino-Soviet split, which made the Chinese question the feasibility of continuing a Soviet-modeled system. In this context, Chinese policymakers grew a stronger awareness that China is still in the early phases of socialist construction and that this situation will last longer than expected due to several constraints, including the long-term retreat of the international communist movement and the advent of capitalist globalization under the Third Industrial Revolution. Relatedly, China's new leadership forged around Deng required an entirely novel framework to mobilize the economy by taking advantage of globalization and ensuring the legitimacy of the economic model after the power vacuum created by Mao's death. According to Chinese policymakers, this was a viable alternative to rapidly surpass the Soviet Union and catch up with the West without sacrificing domestic stability.

In the late 1970s, Deng proposed digging deeper into Mao's theoretical contributions to "socialism with Chinese characteristics" and preparing a blueprint for China's modernization by shifting the focus from class struggle to the fundamental task of expanding the country's productive forces, which are viewed as the "foundation" of Chinese socialism (Deng, 1987: 17; Gürcan, 2021b). As originally conceived, this blueprint proceeds from the argument that "economic development is our primary objective, and everything else must be subordinated to it," drawing on Mao's subsequent formula offered in *A Critique of Soviet Economics* (Deng, 1987:116; Mao, 1977). Worthy of

note here is that this formula provides an earlier framework for state capitalism and modernization: "In addition to modernizing industry and agriculture, science and culture, we have to modernize national defense" (Mao, 1977: 65). Following Mao's teachings on the Four Modernizations, Deng's blueprint consists of "one focus" (economic construction centred on the development of agriculture, industry, defence, and science and technology, otherwise known as the "Four Modernizations") and "two basic points", i.e. (a) upholding the "four cardinal principles" (upholding socialism, the people's democratic dictatorship, the CPC leadership and Mao Zedong Thought) and (b) the policy of reform and opening towards a system of market socialism integrated with the world economy (Deng, 1984: 187-188; Wu, 1996; CPC, 1991; Gürcan, 2021b).

It is important to emphasize that Deng's re-

**With common prosperity and the state's guidance of the economy in mind, Deng rather advocated for the acceleration of "foreign investment capital in a planned way... [by] serving the development of the socialist economy as a whole".**

form strategy does not stem from a neoliberal perspective of market fundamentalism. With common prosperity and the state's guidance of the economy in mind, Deng rather advocated for the acceleration of "foreign investment capital in a planned way... [by] serving the development of the socialist economy as



Deng Xiaoping (right) with Jiang Zemin (left) on November 12, 1989. (China Daily, 2014)

a whole” (Deng, 1984: 96). He thus followed Mao’s (1961: 413) motto “only modernization could save China, only learning from foreign countries could modernize China.” Similarly, he refuted the idea “that the market is capitalist and only planning is socialist” (Deng, 1984: 136). Instead, he insisted that both planning and markets could be used to serve the socialist system, whose essence lies in the “liberation and development of the productive forces, elimination of exploitation and polarization, and the ultimate achievement of prosperity for all” (Deng, 1984: 243). However, these objectives can only be realized “step by step” despite complexities and contradictions along the way: “Where conditions permit, some areas may develop faster than others; those that develop faster can help promote the progress of those that lag behind, until all become prosperous” (Deng, 1984: 244).

Deng realized that China’s size was too large for central planning to be effectively imple-

mented in every area of the economy, which called for a less centralized system of planning (Naughton, 2018). Within this framework, China initiated the era of reform and opening up by decentralizing agriculture and gradually allowing for the privatization of the industry while “open[ing] up [China’s] industrial base to foreign contractors... [based on] very stringent guidelines that foreign contractors had to follow” (Marino, 2018:42). The idea was to benefit from foreign direct investments to transfer capital and technological knowledge in the longer term by pursuing export-driven strategies (Marino, 2018). As such, reform and opening up were used as vehicles for implementing an autocratic model of state-guided development without giving up to market fundamentalism and economic dependency on the West.

The Jiang era (1993–2002) coincided with a period in which globalization was in full swing and faced with the unipolarization of world



Hu Jintao and Xi Jinping wave to delegates to the 18th National Congress of the Communist Party of China on November 16, 2012. (Hua You /China Daily, 2012)

politics under the US initiative (Gürcan, 2019; Gürcan, 2021b). According to the KOF Index of Globalisation—which takes into account the economic, social and political aspects of globalization—the world’s globalization scores underwent an almost steady increase from 38.43 in 1970 to 53.37 in 2002 (KOF Globalisation, 2020). In this era, China’s political and economic framework was shaped by Jiang’s “Three Represents” theory, which professes to represent “the requirements of the development of China’s advanced productive forces, the orientation of the development of China’s advanced culture, and the fundamental interests of the broadest masses of the Chinese people” (Jiang, 2002: 8). The “advanced productive forces” component of the “Three Represents Theory” takes off from Mao and Deng’s vision of modernization (Jiang, 2002: 183). In line with Jiang’s theory, the Chinese economy moved towards a socialist market economy with public ownership as the main form. Here, public ownership encom-

passes a broader scope than mere state ownership, including not only state-owned enterprises (SOEs) but also collectively-owned enterprises (COEs) and various forms of mixed ownership, such as cooperative enterprises and “equity shares in private and foreign firms that are held by SOEs and (COEs)” (Wang, 2011: 459). In 2000, therefore, China launched a going-out strategy “with the aim of establishing Chinese firms as global players, including SOEs and the state-owned commercial banks” (Yueh, 2018: 114).

Regarding the “advanced culture” component, Jiang envisioned the development of a national culture that “provide[s] spiritual and intellectual support for economic development” in line with such values as self-reliance, competition, efficiency, democracy and innovation (Jiang, 2002:188-189). Finally, when it comes to the “broadest masses” component of the “Three Represents Theory”, Jiang’s vision aimed to “bring the vast fields of society and a

growing market under solid and effective Party leadership” (Jiang, 2002: 16). According to Jiang, this vision was to be realized by encouraging “party building in non-state enterprises” and extending these efforts towards “private business owners” (Jiang, 2002: 21-23).

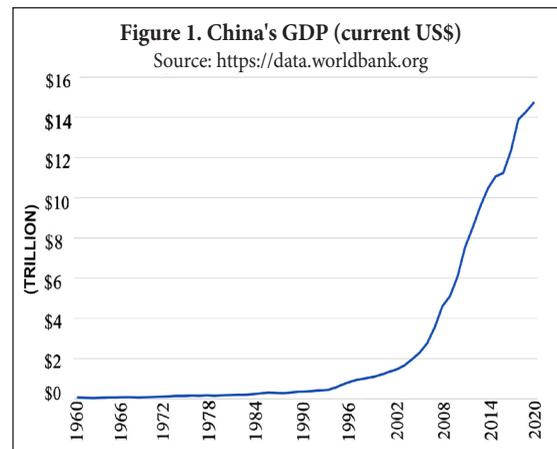
In this period, China witnessed rapid economic growth and industrialization, which allowed for reversing income inequality, remedying environmental damage, and improving social welfare by the end of the 1990s. For one thing, China’s estimated GINI scores had changed from 0.33 in 1980 to 0.35 in 1990 and 0.4 in 2000 (Chen et al., 2010: 20; Gürcan, 2021b). To face such challenges, the Tenth Five Year Plan (2001–2005) targeted regional disparities, improving the quality of education, expanding forest coverage, increasing disposable income, accelerating infrastructure development, and bettering medical services (China Daily, 2011). One should also emphasize that the Tenth Five Year Plan imposed a stronger emphasis on the public sector: “The ownership system needs to be further improved. We need to uphold the dominance of the public sector of the economy, let the state-owned sector play the leading role, develop various forms of collective undertakings, and support, encourage and guide the healthy development of private and individual sectors of the economy (Zhu, 2001).” In the meantime, China targeted a total of 120 strategic corporations for state support. These corporations were conceived of as “national champions” who would soon become “global players”, mostly operating in strategic areas such as electricity, coal, automobiles, electronic appliances, pharmaceuticals, transportation, aviation, and information technology (Kiely, 2015).

**From Balanced and All-Round**

## **Development to the Chinese Dream of National Rejuvenation: Towards a Higher Phase of Socialism in the Hu Jintao and Xi Jinping Eras**

When the Hu administration (2002-2012) came into office, China’s productive forces had already attained a degree of maturity that made it possible to focus on the fight against exploitation and polarization. GDP can be used as a basic indicator of the level of development of productive forces, and the data on China’s GDP point to significant achievements in the 2000s (See Figure 1). Formulated in response to the rising tide of social unrest and taking advantage of China’s increased level of economic maturity, Hu’s theory of “harmonious society” provided a policy framework that targets the smoothing of popular unrest.

In this context, the 10th Five Year Plan prioritized improving China’s social security system and state-owned enterprises, whilst the 12th Five Year Plan focused on environmental protection as part of Hu’s harmonious development blueprint while also developing education, science, and technology (CGTN,



2020). Hu's new policy framework had a strong effect on the inauguration of Labour Contract Law (LCL) in 2008 and noticeable increases in the minimum wage by local governments. The LCL ensures registered employment along with contract renewal guarantees, social security funds, and wage standards (Gürcan & Mete, 2017: 12-13).

According to Hu, "social harmony is an

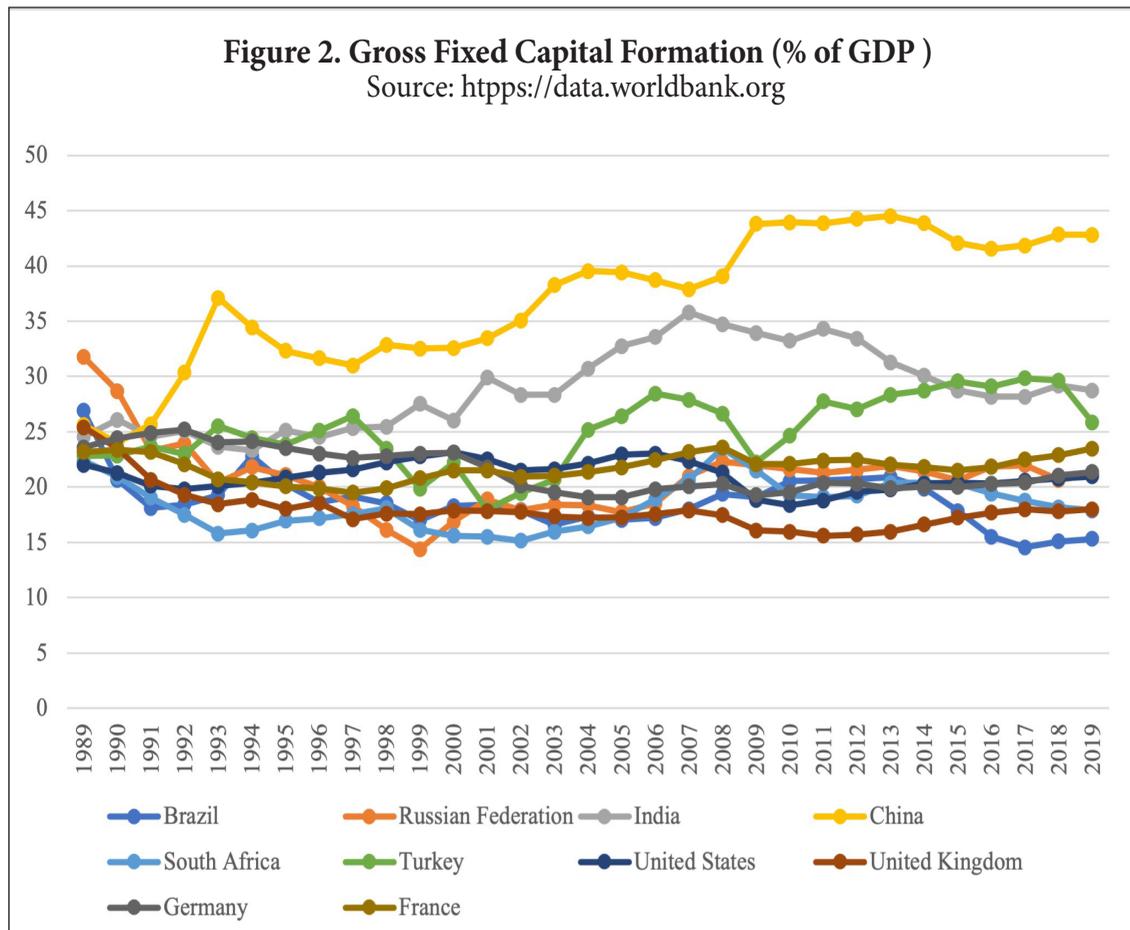
**The Hu administration accelerated social policies, state-guided policies, and large-scale infrastructure investments, which the Xi administration later deepened.**

essential attribute of socialism with Chinese characteristics" (Hu, 2007). His vision of social harmony was not limited to promoting "social equity and justice". It finds its fullest expression in "balance[ing] urban and rural development, development among regions, economic and social development, relations between man and nature, and domestic development and opening to the outside world" (Hu, 2007). One cannot help but notice that Hu's vision strongly echoes Mao's speech entitled On the Ten Relationships, where he makes a case for balanced development in conformity with the concrete reality of China (Mao, 1974). In achieving social harmony, moreover, Hu brings the "Scientific Outlook on Development" to the centre of his policy framework, which consists of making full use of the guidance of science and education to promote a balanced, all-round, and sustainable model of development that puts people first

(Hu, 2007; Gürcan, 2021b). Therefore, Hu's vision of building a "moderately prosperous society in all respects" led him to emphasize "running the administration for the sake of the people" and "seeking harmony in the midst of differences" (Hu, 2007).

In this context, the Hu administration accelerated social policies, state-guided policies, and large-scale infrastructure investments, which the Xi administration later deepened. The Eleventh Five Year Plan (2006-2010) laid an even stronger emphasis on the public sector. It thus sought to "push the government capital to concentrate in the important industries and key fields critical to the national safety and national economic arteries, optimize state-owned economic distribution, reinforce the controlling force, influence and driving force of the state-owned economy and exert its leading function... develop big company and big enterprise groups with relatively strong competitive power... continue to deepen collective enterprise reform and develop multi-form collective economy (PRC, 2006)." This plan also accentuated the task of building an independent base of manufacturing and innovation abilities (PRC, 2006).

Based on the context depicted above, gross fixed capital formation may be considered a basic indicator for infrastructure development. It includes not only land improvements, plant, machinery, and equipment purchase but also the construction of roads, railways, schools, offices, hospitals, private residential dwellings, and commercial and industrial buildings. Available data indicate that China's gross fixed capital formation grew by around 7.85 percentage points in 1989-2001. Between 2002 and 2012, this growth was recorded at



9.19 percentage points under the Hu administration. Worthy of note here is that China's state-guided economic development model allowed the Chinese gross fixed capital formation to outscore imperialist countries such as the US, the United Kingdom, Germany, and France (See Figure 2).

The expansion of China's social policies can be assessed by reference to data on "public expenditure on social security and employment", "government expenditure pension and social welfare", and "domestic general government health expenditure as a percentage of current health expenditure". Regarding social security and employment, China's public

expenditure witnessed a significant increase, which amounts to a rate of over 328% (see Figure 3). This situation is no different from China's expenditure on pension and social welfare, having soared by more than 686% in the period 1995-2006 alone (see Figure 4). Not surprisingly, this is reflected in the increasing labor share of GDP in China, which accelerated in 2010 and reached 51.3% by 2017 (see Figure 5). In 2000, moreover, China was the second-worst performer in our sample of imperialist and developing countries in the area of general government health expenditure. However, the 2000s testified to a spectacular increase in the ratio of China's ge-

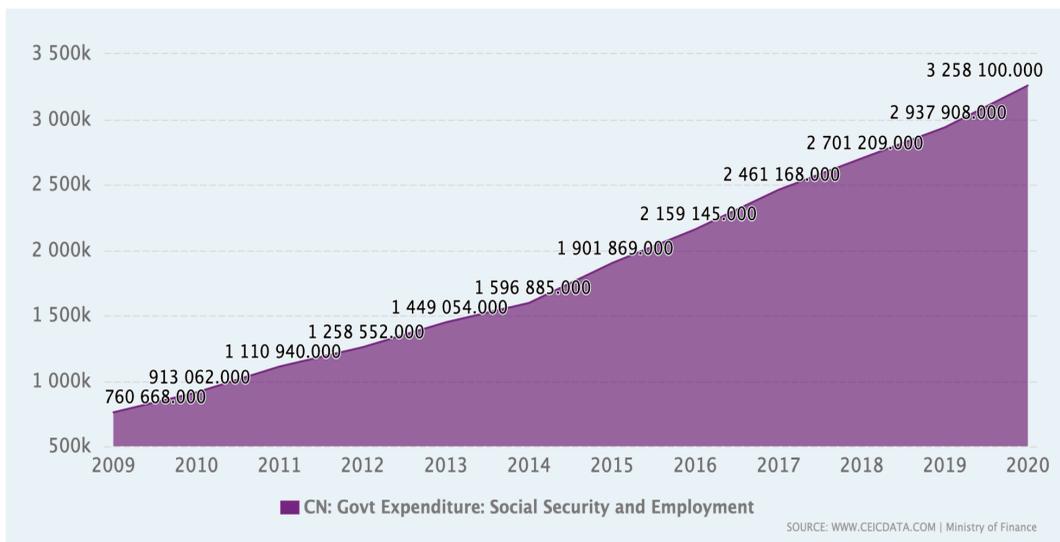
neral government health expenditure to total health expenditure, which rose by nearly 34.5 percentage points.

It thus seems that China exhibited the highest rate of increase in our sample, only to accelerate under the Hu and Xi administrations. Available data indicate that public health expenditure reached a level above 50% of total health expenditure, starting with the year 2010 (see Figure 6). A similar situation goes for China's government expenditure on education (as a % of GDP), which rose from 1.88% in 1999 to over 3.75% in 2010 (see Figure 7). An upward trend is also observable in China's average wages. They rose by almost 237% under low inflation conditions (see Figure 8). All of these developments were reflected in the reduction of the GINI index, or income inequality since 2010, mainly thanks to Hu's all-round development strategy, as well

as Xi's diligent efforts later. At this point, it bears underscoring that China's GINI index reveals China's social advances in the 2000s (see Figure 9). China exhibited similar performance in its Human Development Index (HDI). HDI is a tool that measures human development in health, education, and the standard of living. Overall, there has been a constant increase in China's HDI in the period 1990-2019, which amounts to an increase of 0.262 points in total (see Figure 10). In the final analysis, one could argue that these socioeconomic achievements clearly demonstrate the success of China's model of development.

China's shift to a more people-oriented economic policy framework gained significant pace under the Xi administration. This administration has continued Hu's vision of core socialist values, deepened the struggle against corruption and inequality, and achieved no-

**Figure 3. China's Government Expenditure: Social Security and Employment**  
 Source: <https://www.ceicdata.com/en/china/government-revenue-and-expenditure/government-expenditure-social-security-and-employment>



**Figure 4. China's Government Expenditure on Pension and Social Welfare (RMB)**  
 Source: <https://www.ceicdata.com/en/china/government-expenditure-by-other-category/government-expenditure-pension-and-social-welfare-ps>

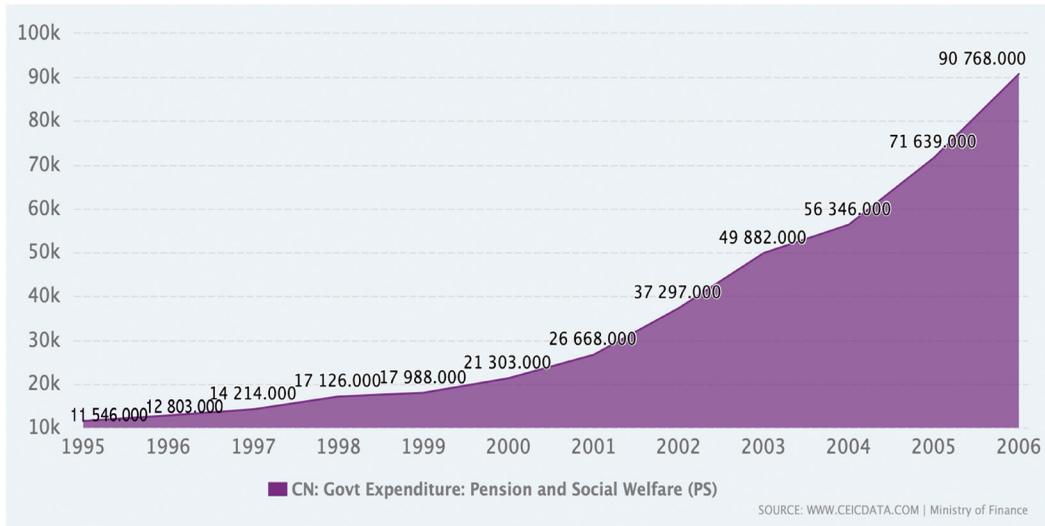
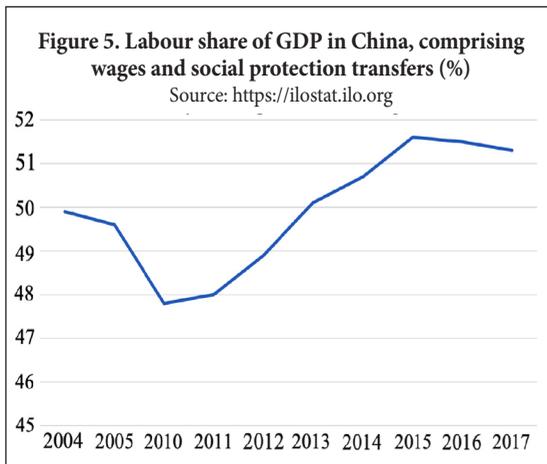


table successes in eliminating pro-American elements from the state as a continuation of Hu's diligent efforts (Martin, et al., 2021; Dorfman, 2018). In a world characterised by the decline of US global hegemony and the multipolarization of global politics (Gürcan, 2019; Gürcan, 2021b), Xi strives to restore China's self-confidence and wealth, which finds its fullest expression in the notions of the doctrine of "Four Matters of Confidence" and the "Chinese Dream". The origins of the "Four Matters of Confidence" can be traced back to a speech delivered by Hu at the 18th CPC Party Congress, where he pointed to the importance of maintaining confidence in the future of socialism, the scientific nature of socialism as a theory, and the superiority of socialism as a system. In 2014, Xi added a fourth component, which stresses confidence in the value and vitality of Chinese culture.

China's growing self-confidence, driven by intensifying geopolitical rivalry and the country's sustained economic success, also finds its expression in the notion of the "Chinese Dream" (Gürcan, 2021b; China Research Center, 2012). Xi describes the Chinese Dream as:

"A dream cherished and aspired to by the Chinese people and nation, a dream of building China into a well-off society in an all-round way and rejuvenating the Chinese nation, a dream for everyone to make his own dream come true, a dream that the whole nation strives for, and a dream to show the world China's commitment to making a greater contribution to the peace and development of mankind" (Xi, 2014a: 179).

As such, the Chinese Dream calls for the rejuvenation of the Chinese nation by further deepening Hu's vision of equitability and sustainability, without however losing sight of



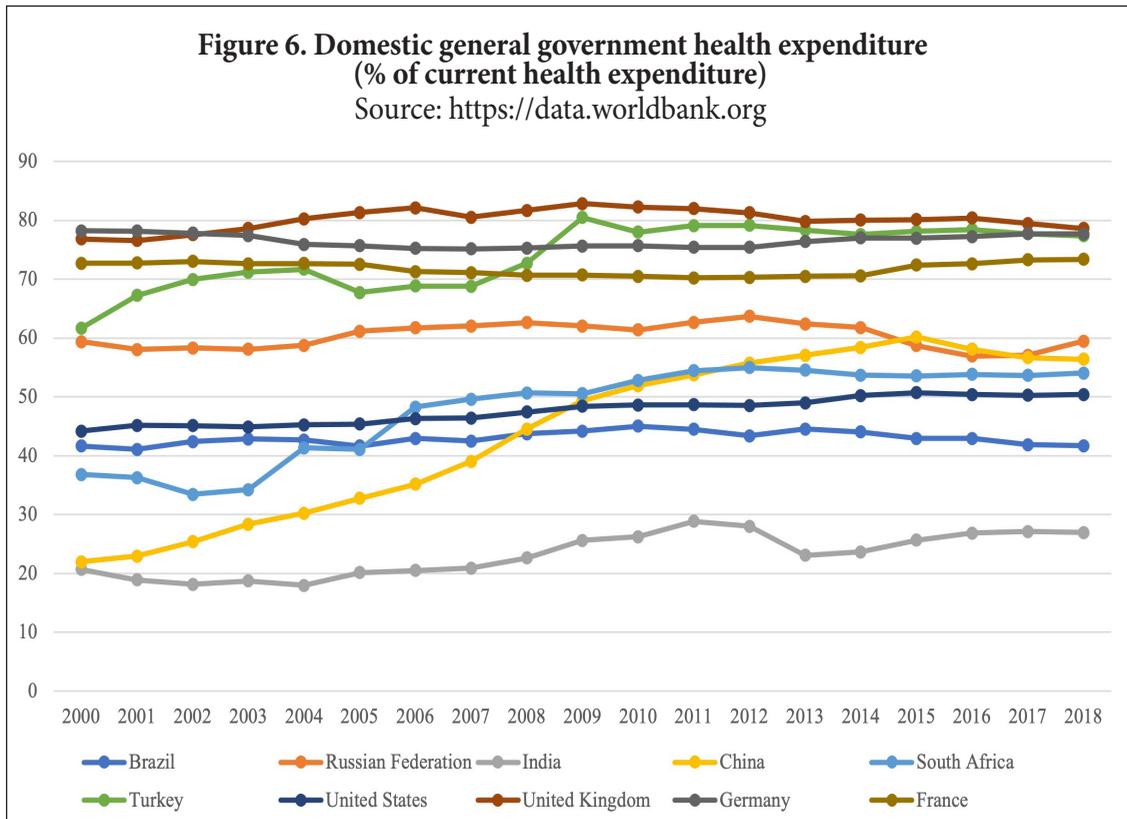
Deng’s modernisation plan:

“We will continue to give top priority to development; put people first; persist in reform and opening up; comprehensively promote economic, political, cultural, social, and eco-

logical progress; and spur coordinated progress of every aspect of the modernization drive” (Xi, 2014b: 8-12).

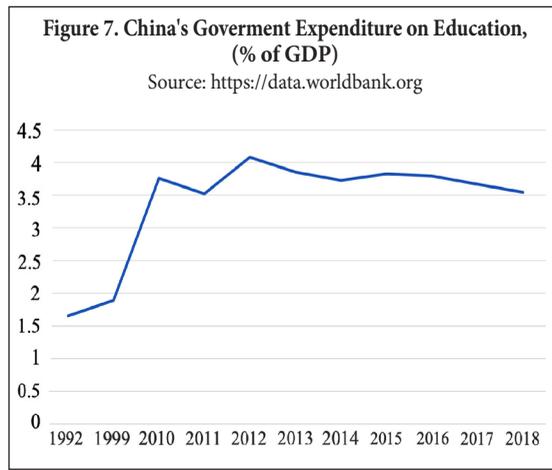
For what came to be known as Xi Jinping Thought, the keys to such rejuvenation are “better education, more stable jobs, more satisfactory income, greater social security benefits, better medical and health services, more comfortable living conditions and a more beautiful environment” (Xi, 2014b: 16). Worthy of special emphasis in this regard is how Xi frames the working class as the “main force for finishing building a moderately prosperous society” (Xi, 2014b: 56; Gürcan, 2021b).

Under the Xi administration, China’s state-guided economic development model –



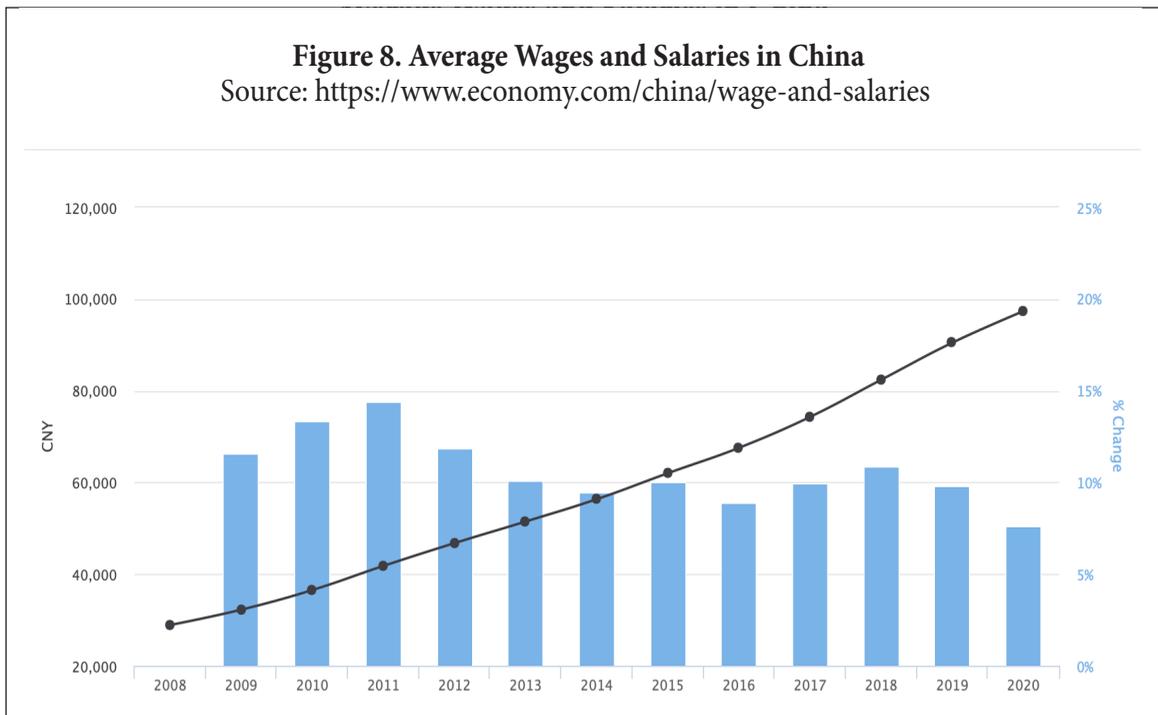
where the state determines the general course of economic development based on long-term plans and strategies– attained a higher degree of maturity. This level of maturity finds its expression in the Decision of the Central Committee of the Communist Party of China on Some Major Issues Concerning Comprehensively Deepening the Reform:

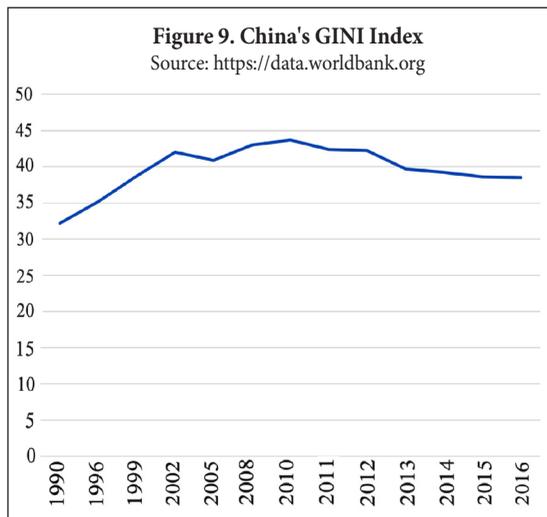
"The basic economic system with public ownership playing a dominant role and different economic sectors developing side by side is an important pillar of the socialist system with Chinese characteristics and is the foundation of the socialist market economy. Both the public and non-public sectors are key components of the socialist market economy, and are important bases for the economic and social development of China. We must unwaveringly consolidate and develop the public economy, persist in the dominant



position of public ownership, give full play to the leading role of the state-owned sector, and continuously increase its vitality, controlling force and influence. We must unwaveringly encourage, support and guide the development of the non-public sector, and stimulate its dynamism and creativity (CPC, 2014)".

Therefore, one could deduce that in China's



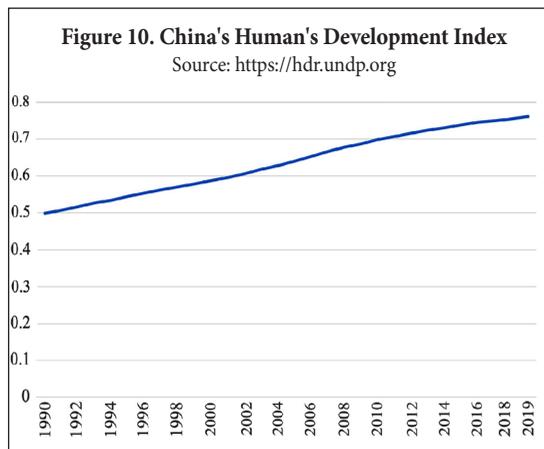


economic development model, public ownership plays a dominant role with due regard for the balance between economic and socio-environmental development and harmony between the public and non-public sectors.

In this context, it is no coincidence that the Chinese economy and its success continue to heavily rely on state-owned enterprises (SOEs), which accounted for 40% of China's GDP in 2020 (Guluzade, 2020). The main function of SOEs as the engine of the Chinese economy lies in supporting capital-intensive industries and large undertakings beyond the means of free market actors, contributing to the public goods beyond the sole profit motive, and correcting market failures (Tay, 2013, Lin, et al., 2020; Wu & Fan, 2014: 69). Under reform and opening up, SOEs gained greater autonomy, where the responsibilities of central and local governments were expanded alongside those of outside directors. In the 2010s, greater support was also granted to commercial SOEs operating in strategic sectors that are deemed important for national security (Lin, et al., 2020). Even though

the reform and opening up led to a reduction in SOEs from 262,000 in 1997 to 173,000 in 2016, their assets soared from around 12.5 trillion RMB to 155 trillion RMB.

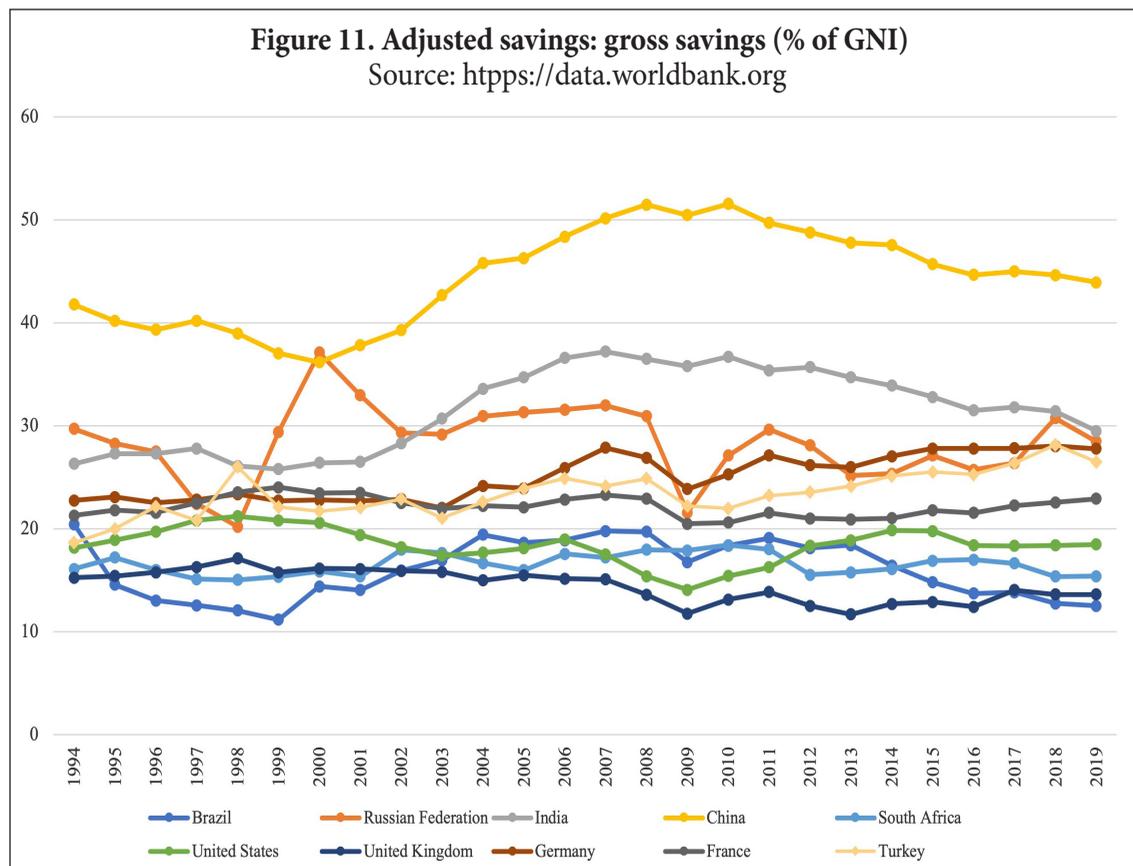
Similarly, the net income of SOEs witnessed a significant increase, from nearly 79.12 billion RMB to 2.5 trillion RMB (Lin, et al., 2020: 4). An overwhelming majority of revenues by SOEs is derived from the strategic or top-tier sectors comprising defense, electricity, oil, gas, telecommunications, coal, shipping, aviation, and rail. A substantial part of SOE revenues is also generated by the pillar or middle-tier industries comprising automobiles, chemicals, construction, electronics, equipment manufacturing, nonferrous metals, prospecting, steel, and technology. Lately, biotechnology and alternative energy manufacturing have been included in the middle-tier industries (Asia Society Policy Institute, 2021; Pearson, 2015). Moreover, it is also important to note that “private companies, whether individual, small/medium-sized or hi-tech start-ups are not ‘free’, since they are heavily dependent on local party members” (De Rambures, 2014: 4). Equally important is how large private companies such as Huawei enjoy substantial

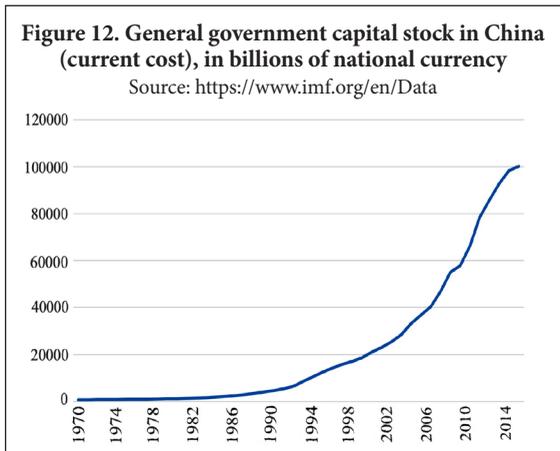


government support and forge organic relations with the People's Liberation Army (De Rambures, 2014). Such examples reveal that socialism and state-guided development do not necessarily contradict the private sector.

More can be said about the increasing importance of China's state-guided economic development model despite reform and opening up. In 1995, the CPC launched an initiative called "retain the large; release the small" (fangxiao) through sales and merger and acquisition activity, which resulted in a more limited number of highly mega-firms emerged" with greater economic and political power (Wu & Frazier, 2018: 132; Pearson, 2015). Large SOEs still maintain a dominant

position in the economy, e.g. "computers (Lenovo), petroleum (Petrochina, Sinopec), chemicals (Sinochem), public works (Sandy), aerospace (AVIC), shipyards (Ronsheng), steel (Baosteel), appliances (Haier)" (De Rambures, 2014: 34). Furthermore, 19 out of China's 20 largest companies are state-owned or state-controlled companies that determine the course of the economy. These companies are among the top 150 corporations ranked by Fortune Global 500 and mostly operate in the oil, chemicals, utilities, banking, insurance, construction, telecommunications, and automotive industries (Wu & Frazier, 2018). The world's four largest banks –as the main engine of China's economic development– belong





to China’s public sector (i.e. the Industrial & Commercial Bank of China, the China Construction Bank, the Agricultural Bank of China, and the Bank of China). Therefore, they exert a strong influence on the Chinese economy and global economic change. Worthy of note here is that the number of SOEs listed in Fortune Global 500 witnessed an upward trend in the 2000s, with their number increasing from 49 in 2005 to 102 in 2017 (Wu & Frazier, 2018).

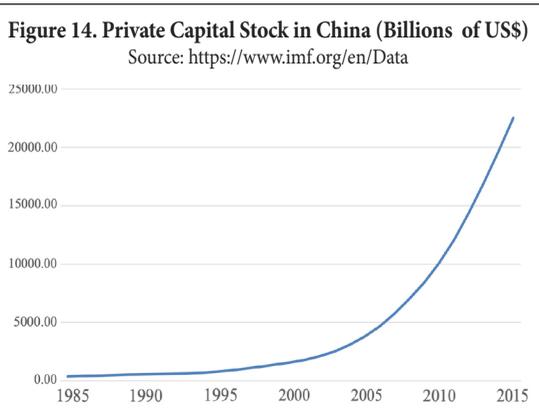
The main characteristic of the Chinese model of economic development lies in that “the market is ‘driven’ by a strong government, and the state sector guides the national economy” (Wu & Fan, 2014: 69). State guidance on the economy allowed China to accumulate large amounts of capital and strategically mobilize this accumulated wealth to support the expansion of a productive economy (Yongding, 2014). As such, China stands out as the top performer in gross savings (as a % of Gross National Income, or GNI) among the leading imperialist and developing countries such as the BRICS grouping (i.e. Brazil, Russia, India, South Africa) and Turkey. China’s performance exceeded 50% of its GNI in the 2007-2010

period (see Figure 11). This is also reflected in the spectacular rise of general government capital stocks, public-private partnership investments, and private capital stocks (see Figures 12-14). In the 2000-2015 period alone, general government capital stocks witnessed an over 374.5% increase (See Figure 12). This led China to develop the largest industry (as a % of GDP) in our entire sample and become the top performer in medium- and high-tech manufacturing (as a % of manufacturing, value added) among developing countries (see Figures 15-16).

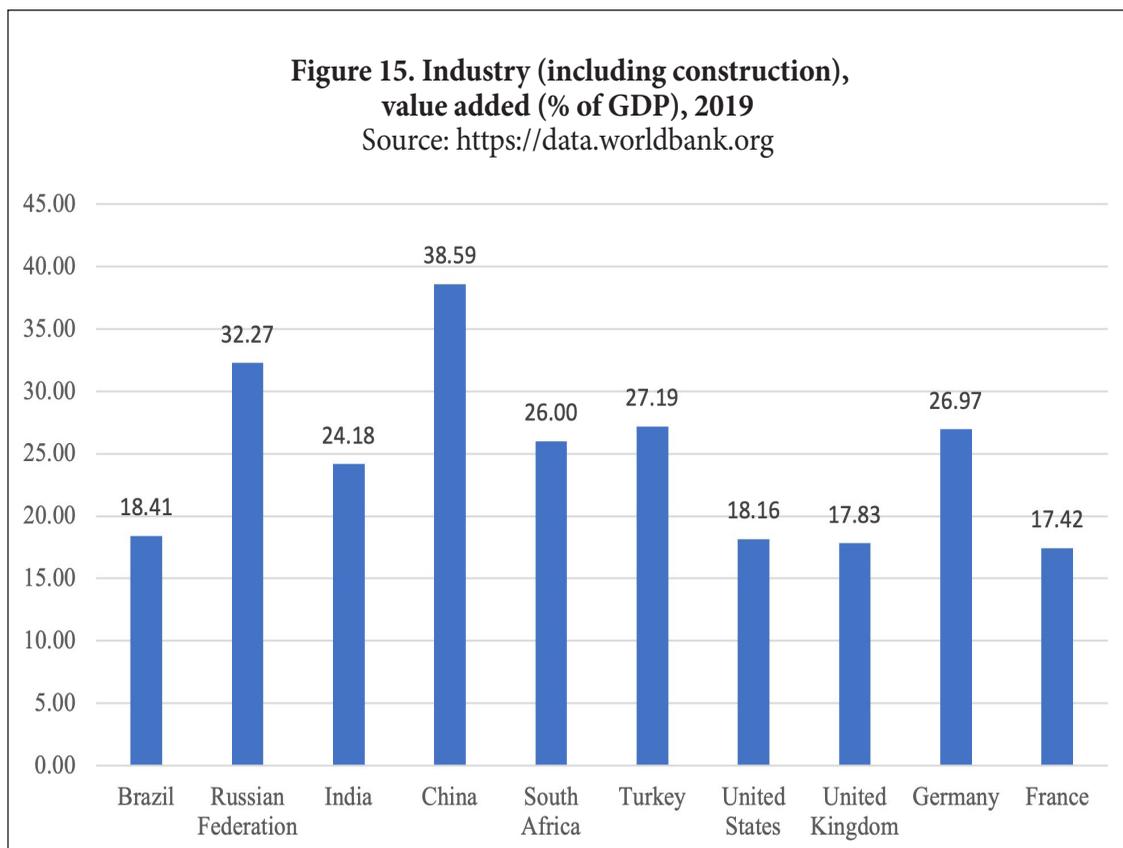
The mere growth of capital stocks does not automatically serve the goals of permanent and long-term economic development unless they are mobilized to trigger technological progress and innovation. For developing countries, the scale of mobilization required to enable targeted advances necessitates strong state guidance and strategic planning, given that the spontaneous functioning of free markets cannot satisfy such requirements. This also applies to China, whose national science and innovation system was created at the 1978 National Conference on Science and Technology Work convened by the Cent-



ral Committee of the CPC. In this conference, Deng declared science and technology as part of productive forces. The 6th Five-Year Plan in 1982 launched China's first National Program for Science and Technology Projects, which paved the way for the National Technological Transformation Plan in 1982, the National Key Scientific and Technological Breakthrough Plan in 1982, the National Key Laboratory Construction Plan in 1984, the National High-Technology Development Plan in 1986, and the Spark Program (Zheng, et al., 2020). The year 1988 marked the creation of national development zones for new and high-technology industries. An important landmark in developing China's national science and innovation system is the adoption of the Law on



Scientific and Technological Progress in 1993, which promotes the progress of science and technology as foundations of economic construction and social development (Zheng, et al., 2020). This legal environment provided new momentum for implementing national prog-



rams in the 1990s and the early 2000s, including the National Basic Research Program, the Knowledge Innovation Program, and the National Science and Technology Innovation Program. Two important landmarks in the late 2000s and the 2010s were the implementation of the National Medium- to Long-Term Plan for the Development of Science and Technology and the formulation of the Outline of National Innovation-Driven Development Strategy (Zheng, et al., 2020). The former is a 15-year plan for the period 2006-2020, which calls for “indigenous innovation” (zizhu chuangxin) based on a strong synergy between firms, universities, and research institutes. It encourages indigenous innovation through government-funded R&D and state-guided megaprojects in strategic industries (Naugh-

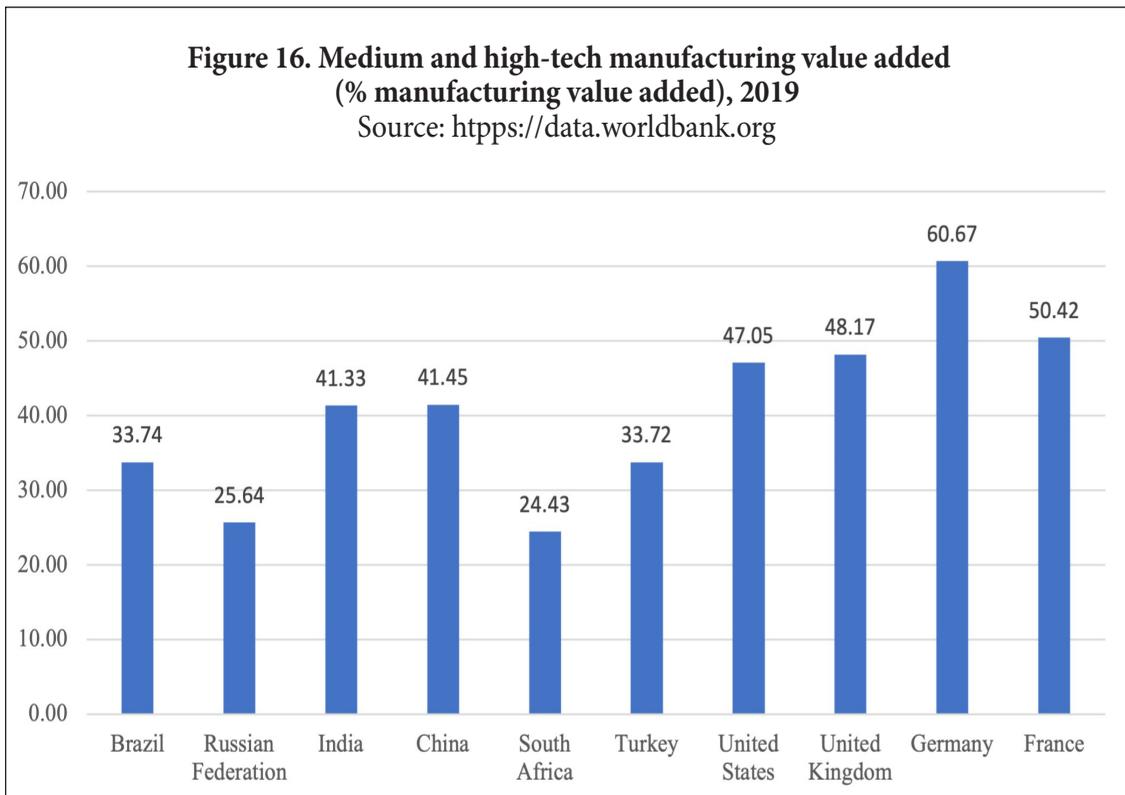
ton, 2018). The latter provides a strategic roadmap for China’s scientific and technological development in three steps:

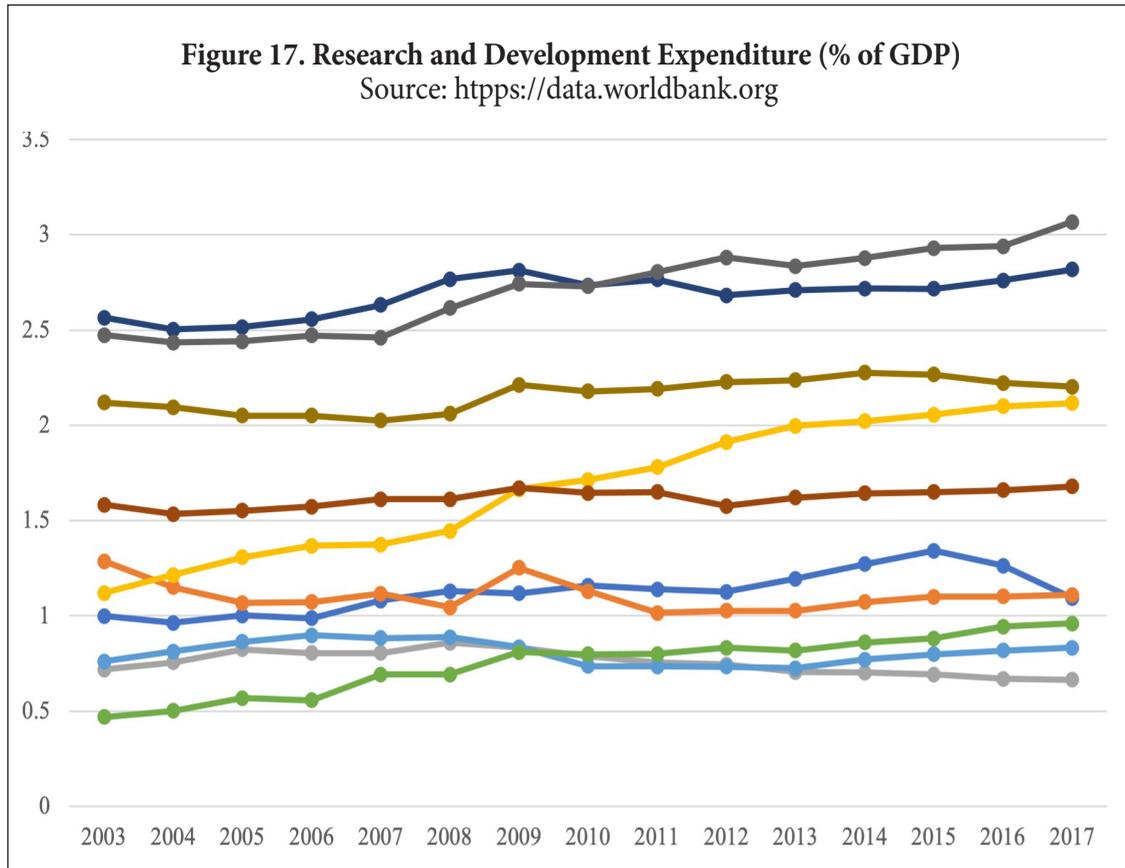
Step 1, China should become an innovative country by 2020 to give strong support for building a moderately prosperous society in all respects;

Step 2, China should move to the forefront of innovative countries by 2030 to lay a solid foundation for building China into a major economic power and a society of common prosperity;

Step 3, China should become an innovation power by 2050 to support the building of a prosperous, strong, democratic, culturally advanced, harmonious, modern socialist country and the realization of the Chinese dream of national renewal (Minister of Science and Technology, 2016).

This outline identifies strategic areas to

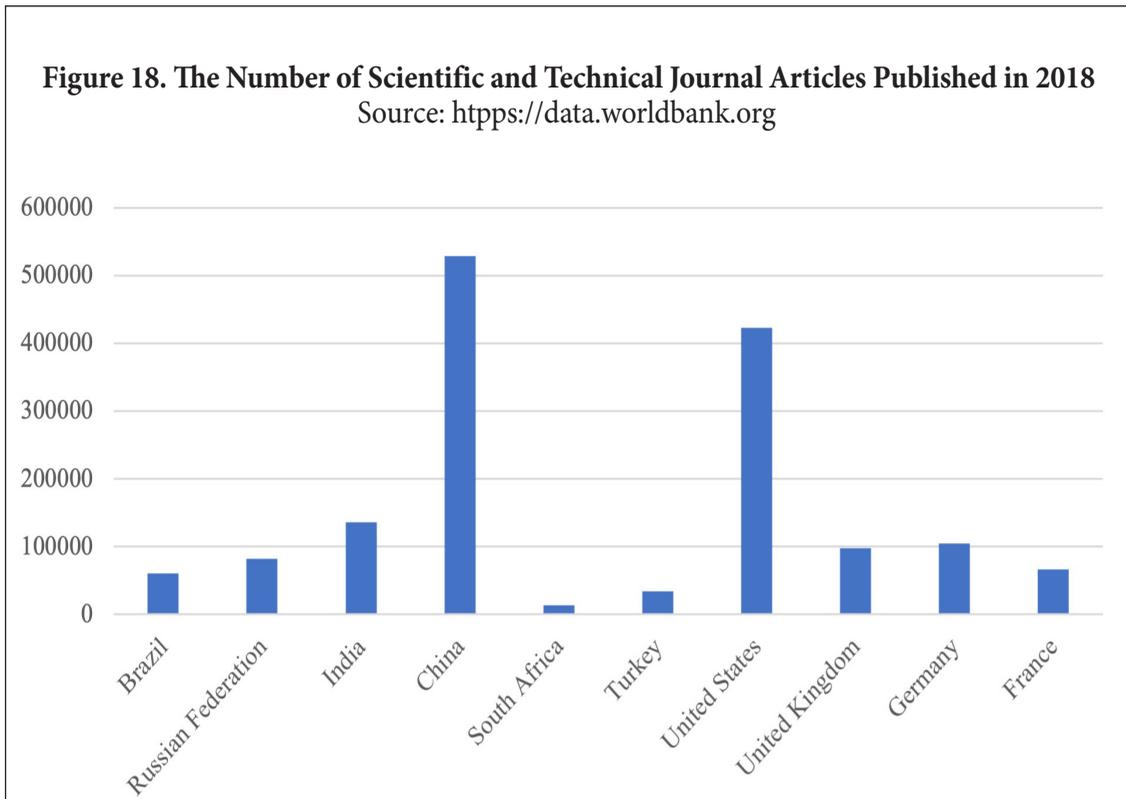




include smart and green manufacturing and energy technologies, humanlike machine intelligence, natural interaction and virtual reality, microelectronics and optoelectronics, broadband mobile Internet, cloud computing, the Internet of things, Big Data, high-performance computing, mobile intelligent terminals, independent hardware and software products and network security technology, modern agricultural technology, and marine, space, and medical technologies (CSET, 2019).

China views science and technology as a complementary pillar of its economic development. This is the main reason why China's industrial strategies also reflect a science- and technology-driven approach.

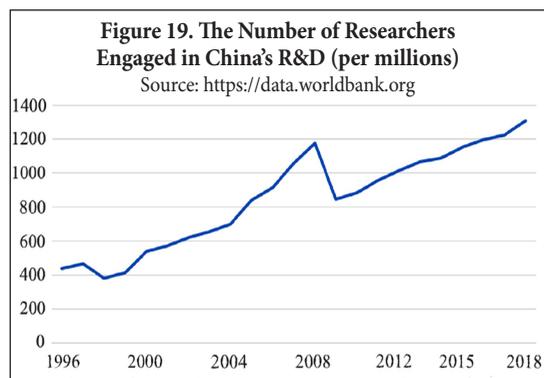
A case in point is Made in China 2025, China's national strategic plan for industrial policy as part of "Industry 4.0". Launched in 2015, this plan calls for integrating new technologies into the economy and developing a national industrial base led by indigenous innovation. It thus provides a general framework to mobilize state support for key industries such as information, technology, robotics, green energy, sustainable transportation, aerospace technology, ocean engineering and high-tech ships, railway equipment, new materials, and pioneering medical and agricultural technologies. High-tech companies operating in these industries are to be supported through tax incentives, subsidies, low-inte-



rest loans, R&D funding, and assistance for acquisitions of foreign technology companies (Huimin, et al. 2018; US Chamber of Commerce, 2017). Another plan launched in 2015 is an action plan called Internet Plus, which aims to use, through fiscal and tax policies, state resources to encourage the application of mobile and digital technologies into the economy, particularly to manufacturing, commerce, finance, medical sectors, government, and agriculture. This plan brands mobile Internet, cloud computing, big data, and the Internet of Things as the driving technologies of the Chinese economy (China Daily, 2015).

Within such policy frameworks, China has devoted its efforts to increase its R&D expenditure (as a % of GDP), which rose from 0.56% in 1996 to 2.14% in 2018.

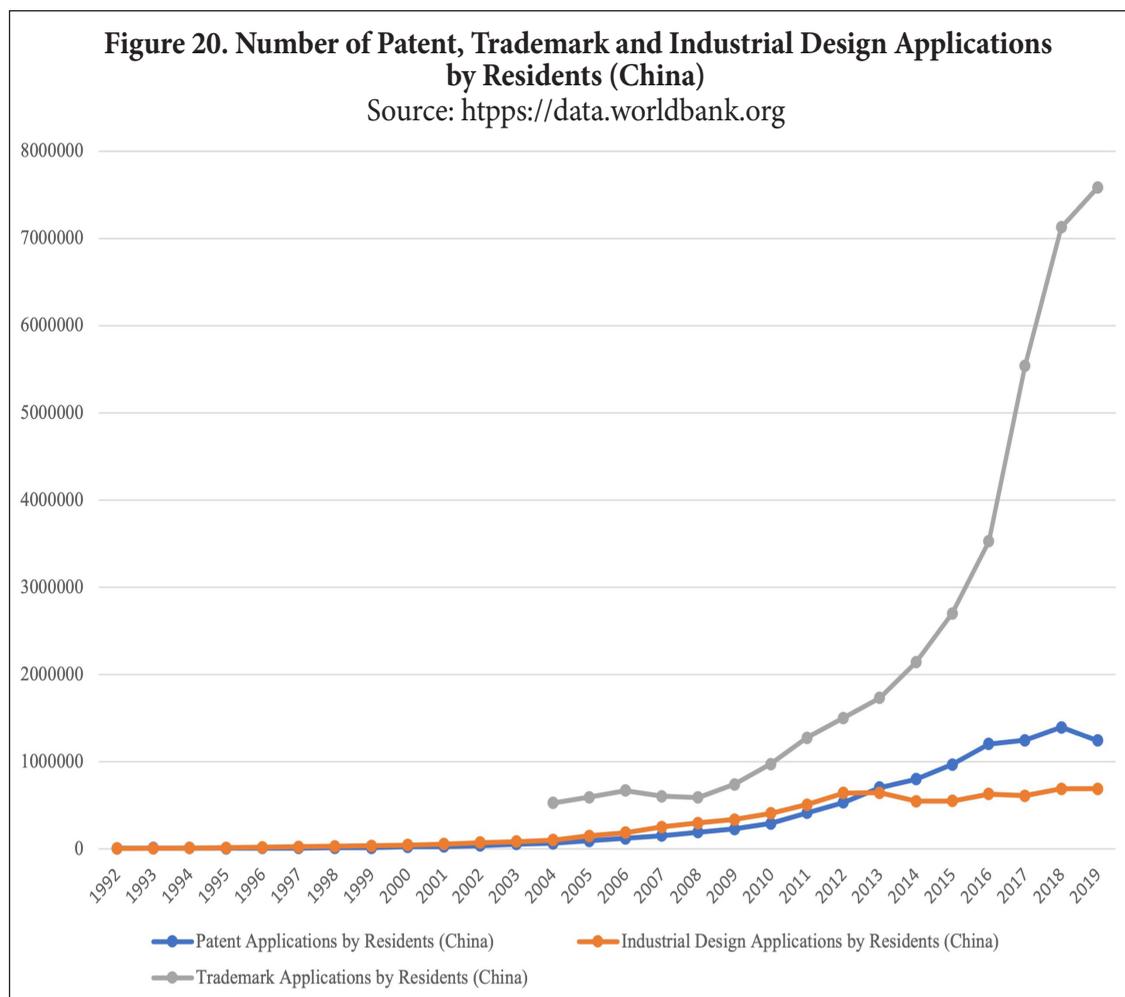
This makes China one of the world’s top performers in R&D expenditure, which is mainly driven by government funds (see Figure 17; Zheng, et al., 2020). Moreover, China’s strong state guidance and strategic planning yielded significant results in its performance related to several important indicators, including the publication of scientific and technical articles, the num-



ber of researchers engaged in R&D, and patents, trademarks, and industrial applications by residents. For one thing, available data reveal that China has become the world's leading country in scientific publications, having overtaken the United States in 2016 (see Figure 18). In a similar vein, the number of researchers engaged in China's R&D rose by almost 200%, from around 437 million persons in 1996 to 1.3 billion persons in 2018 (see Figure 19). China also witnessed impressive growth in

the number of patents, industrial design, and trademark applications by residents. This points to an increase of over 12308% for patent applications and 9040% for industrial design applications between 1992 and 2019. In the period 2004-2019, China's increase in trademark applications amounted to 1337%.

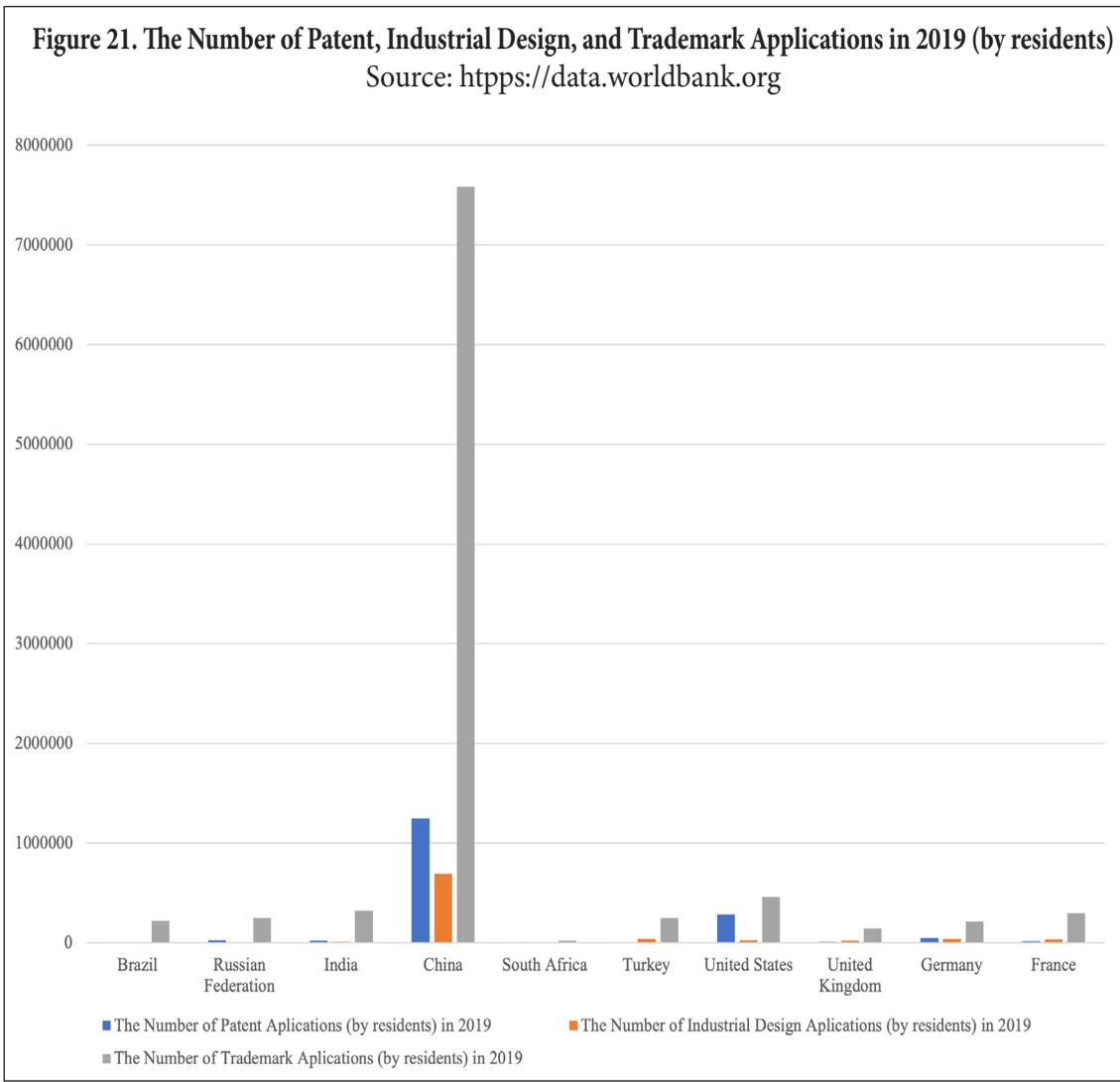
Consequently, 2019 data show that China has become the world's leading nation in patent, industrial design, and trademark applications (e.g. See Figures 19-21).

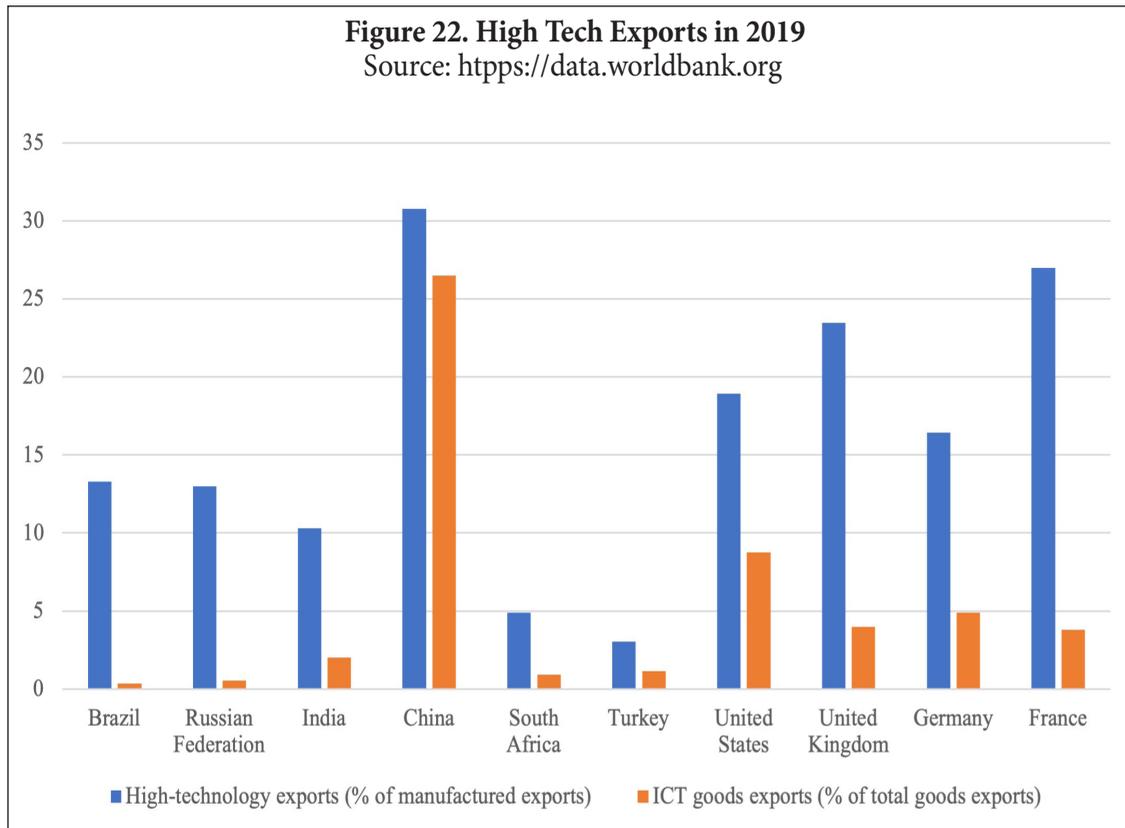


Eventually, the mobilization of capital stocks to support technological progress and innovation under strong state guidance has transformed China’s international trade. 2019 data reveal that China is now a country with the world’s largest share of informational and communication technology (ICT) goods exports in total goods exports and high technology exports in total manufactured exports (see Figure

22). Here, ICT goods include information and technology goods, such as computers, communication equipment, consumer electronic equipment, electronic components, whereas high-technology exports involve a longer list of items that supplement ICT goods, including aerospace, pharmaceuticals, scientific instruments, and electrical machinery.

A final word is needed regarding the





relationship between the Chinese economic miracle and the Belt & Road Initiative (BRI). Eventually, the success of the Chinese economic model has allowed China to gain the status of an “agenda-setter” and “norm-maker” in international politics with the rise of China-led initiatives such as the BRI. The BRI focuses on five primary areas: intergovernmental political cooperation and consensus building, infrastructural and technological connectivity, commercial connectivity, financial integration, and people-to-people exchange for cultural cooperation. While the term “belt” indicates land pipelines, roads, and railways, the term “road” is used to define offshore lines, harbors, and other maritime facilities. La-

unched in 2013 on China’s initiative, the BRI aims at establishing broad networks related to infrastructure, natural resources, and investments in more than 152 countries across Asia, Europe, Africa, the Middle East, and the Americas. Today, the BRI covers over 70 countries, corresponding to more than 65% of the world population, one-third of the global GDP, and a quarter of world trade. This suggests that the BRI has become the most comprehensive development and trade cooperation scheme in history (Gürcan, 2020).

Two crucial observations are worth highlighting at this point. First, the BRI itself reflects China’s state-guided economic approach. For example, Chinese state-owned

banks and the Silk Road Fund, created by the collective efforts of these banks, constitute the engine of the BRI's financial integration and infrastructure investments. Second, the BRI encourages participant countries to adopt a state-guided economy that values infrastructure development and environmental sustainability. A case in point is the Asian Infrastructure Investment Bank (AIIB) as the BRI's financial locomotive, which started to operate in 2016 under China's initiative as "the world's first multilateral development bank (MDB) dedicated to infrastructure" (Wilson, 2017). In the Second Belt and Road Forum for International Cooperation, moreover, the BRI publicly announced its principles for green investment, which later led to the creation of several initiatives for sustainability, such as the International Coalition for Green Development, Sustainable Cities Alliance, Climate Change Cooperation Initiative, Environmental Technology Exchange and Transfer Center, Environmental Big Data Platform, and Green Investment Fund. As part of the Green Belt project, the BRI thus promotes green finance, sustainable energy, green agriculture, eco-urbanization, and social sustainability (Gürcan, 2021a).

### **Conclusion: Debunking the Myths about the Chinese Miracle**

The "cheap labor thesis", i.e. the myth that China owes its economic success mainly to the supply of cheap labor, is often used to derogate China's historic success. In many respects, this article serves to de-

bunk this myth by evincing the Chinese economic miracle and how it has been achieved based on empirical evidence. The findings are hoped to provide developing countries with considerable insights into how advanced levels of economic development can be attained through a socialist market economy understood as an early phase in the construction of socialism. This phase consists of building a state-guided economy that leads the market forces, where public ownership is used to fuel techno-industrial development and a sustainable autocentric economy, albeit closely integrated into the global economy. The leadership of a revolutionary party ensures not only strategic coherence and long-term planning, but also correction of market failures and protection from foreign political interference and economic manipulations.

The "cheap labor thesis" is not the only derogatory term to describe the Chinese economic miracle from a Western-centric perspective. Such biased approaches include Mao's so-called "brutal" legacy, the role of foreign investments and integration into global capitalism, China's "technology theft", and "Chinese imperialism". First and foremost, the evidence suggests that China's long-term success greatly owes to Mao's "socialism with Chinese characteristics", which laid the foundations for human and physical capital necessary for economic development. Indeed, foreign investments do not choose any destination where labor is cheap, given that attracting foreign investments requires a sound physical and human capital infrastructure in

the first place. This being said, it would be equally misleading to reduce China's economic success to merely attracting foreign investment. Quite the contrary, the Chinese miracle is postulated on an autocentric model. It follows that China's secret lies in attracting foreign investments and using state power to maximize technology transfer and strengthen the socialist system. Moreover, based on the foreign investment thesis, some argue that the Chinese miracle mostly emanates from China's renunciation of socialism and integration into global capitalism. In their view, China has developed a shared interest with Western capitalists in joining so-called "global imperialism". However, the intensification of a new Cold War between the United States and China, which insists on improving its socialist system, rather invalidates such arguments (Gürcan, 2019).

One cannot also equate China's techno-

**In contrast to Western capitalism, the Chinese economic miracle does not originate from forced accumulation, wars, and colonialism. On the contrary, it springs from peaceful development and international cooperation.**

logy transfer with technology theft. Technology theft is often deployed as a "stigma" to denigrate China and diffuse Sinophobia. At this point, it would be helpful to recall that even the US economy greatly owes its previous success to state-sponso-

red and systematic technology theft. In his book *Trade Secrets: Intellectual Piracy and the Origins of American Industrial Power*, Doron S. Ben-Atar depicts the chief role of spies in launching the American industrial revolution "by illicitly appropriating mechanical and scientific innovations from Europe" (Macleod, 2005: XXI). He describes the systematic technology theft by the US as part of "policies relating to intellectual property played in promoting the appropriation of smuggled technology which led to the emergence of the United States as the premier industrial power in the world" (Macleod, 2005: XXI).

Finally, the globalization of Chinese SOEs is often misinterpreted as a sign of China becoming an imperialist power. Capitalism and imperialist policies inevitably lead to wars. Western capitalism is strongly predicated on systemic wars such as the Thirty Years' War, the Napoleonic Wars, World War I, and World War II. Moreover, the so-called Western economic success greatly owes to the forced accumulation of wealth through colonialism and slavery rather than the miracle of free markets (Wallerstein, 2002; Williams, 2021; Beckert, & Rockman, 2016). In contrast to Western capitalism, the Chinese economic miracle does not originate from forced accumulation, wars, and colonialism. On the contrary, it springs from peaceful development and international cooperation. Understood as such, China's model also constitutes the living example of the rising relevance and superiority of socialism over the capitalist system.

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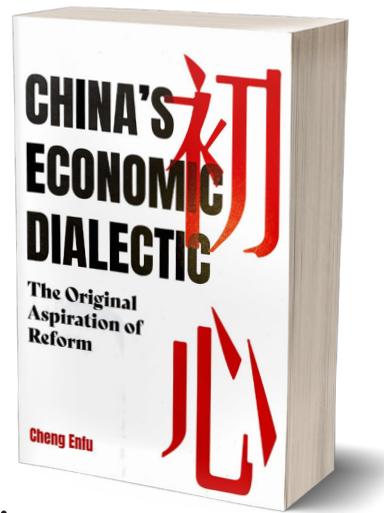
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# Launch Remarks on China's Economic Dialectic: The Original Aspiration of Reform

Cheng, E. (2019).

China's Economic Dialectic:  
The Original Aspiration of Reform.  
New York: International Publishers\*



**JOHN BELLAMY FOSTER\*\***

Sociology, University of Oregon, USA

THIS REVIEW IS ABOUT CHENG ENFU'S BOOK, entitled *China's Economic Dialectic*, and its significance for Western readers. The way I look at the book is that it consists of two parts. The first part is actually the introduction, which is his general statement on his philosophy of Marxism. The introduction itself, will startle all Western readers in the sense that it is often conceived that Marxism in China is dogmatic, that it has simply become a cover for transformations that are going on in China, but it is not in itself a creative or innovative outlook on the world today.

If you read the introduction by Cheng Enfu, you will find that the outlook he presents is entirely different than that. He emphasizes an open Marxism and diversity in Marxist thought. He argues that socialism

should truly implement a policy of "letting one hundred flowers bloom...one hundred schools of thought contend, and it should allow the vigorous development of different schools of thought within Marxism." This approach very much, recognizes the different vernaculars of socialist thought in different parts of the world.

Now, that is the introduction to the book. The book itself is about the economic dialectic that China has brought about. And so, in that sense, it is a practical application of principles of Marxism in relation to the economic domain. What the book is really about is the economics of socialism with Chinese characteristics. It is not written primarily for a Western readership. It was written principally for a Chinese audience, but with enormous clarity. The book is oriented towards strategy

\* This review is made for the book launches session of the Fifteenth Forum of the World Association for Political Economy (WAPE) on 18 December 2021. It has been sent to BRIQ by the WAPE Secretariat.

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and policy, providing key insights and understandings of how the economics of socialism with Chinese characteristics works.

With the revolution, China immediately began to control its own destiny. It is often believed in the West that the first 30 years of the Chinese revolution under Mao were a failure in terms of economic development. This is not true as Cheng Enfu emphasizes in his book.

China expanded massively between 1978 and 2015, while Western economies were stagnating. China increased its economy by thirty-fold in that period. In 1978, the per capita income in China was less than that of Sub-Saharan Africa. Now, China's per capita income is at the median level in the world and continuing to go up and it has reduced absolute poverty within its borders. At the same time, China has emerged as the leading industrial power in the world in terms of simply industrial output.

**Marxism in political economy has still been central to the Party as well as to the management of the state and corporations. It has guided China, which can be seen in every aspect of its development.**

This turnaround, that is extraordinary. Nothing like this, as ever happened in the history of the world. The previous industrial revolutions in other countries, all the other countries that developed have been completely superseded by the Chinese industrial revolution.

Now, from the standpoint of the advanced capitalist countries, the core of the capitalist world, the United States, Europe, and Japan, what we call the "triad", this is a very dangerous development. It was believed that China would develop with the opening of the Chinese economy, but that it would be a second-tier economy, that it would be controlled by the West and its institutions. This has not happened.

So, this is something that needs to be explained. And

Western analysis has completely failed to explain it. One of the reasons is that they have declared that socialism was vanquished. It no longer exists, that capitalism is the only viable economy and capitalist system and neoliberalism, the extreme version of capitalism, are the only possibility. Yet China defies all of this. China has grown economically. And in every other way it has broken the records of previous development. China has not only emerged as an industrial power, but also moved on to major areas of technology. And this keeps on expanding.

Cheng Enfu's book is extraordinarily useful in explaining how the Chinese economy works. China still has five year plans, because China is led by the Party which is able to organize and regulate the economy. Despite the expansion of the market, it is able to guide the economy in ways that are quite unique, *Sui generis*, as we would say, a new model of development. And this is largely because of the continuing strategic role of the state sector, that it is able to control the market sector to a considerable extent and create a kind of balance in the equilibrium that does not exist in the West.

All of this has actually been guided historically by Marxian political economy. Despite all of, the changes in China and the bringing in of new ideas and methods from the West, the use of the market, Marxism in political economy has still been central to the Party as well as to the management of the state and corporations. It has guided China, which can be seen in every aspect of its development. And this is made clear in Cheng Enfu's book.

China's creativity is extraordinary. And I think you will see this in Cheng Enfu's book. There is actually a renaissance of Marxist thought going on in China at this time. And I think Cheng Enfu is part of that. At some enormous period of creativity, there are other traditions besides the one represented in this book, but it is difficult not to see that these are world-historical developments and world-historical forms of critical thought that dialectics and materialism and our understanding of history of economics and politics, are being given new form in the Chinese revolution, which still continues. 🌸

# The Dominant Position of the Public Economy is the Heart of Chinese Socialism

## The Speech on Winning the World Economics Award\*



**DING BING**

*We present to your attention the award acceptance speech of Prof. Ding Bing, professor at Capital University of Economics and Business and General Counsel of China Society of Foreign Economics, at the Plenary Session I (Opening & Awarding Ceremony) of the Fifteenth Forum of World Association of Political Economy (WAPE), held at the Shanghai International Studies University, China, December 18-19, 2021.*

I am a professor at Capital University of Economics and Business and also the General Counsel of the China Society of Foreign Economics. Many important domestic magazines have praised me as a prominent “Contemporary Marxist Economist”.

At today’s conference, let me first thank the “World Association for Political Economy” for awarding me with the “World Marxist Economics Prize” in 2020. I am deeply aware that this is not only a personal encouragement, but also a strong incentive for me to actively devote myself to this glorious cause pursued by the World Association for Political Economy, observing and studying

the economies of all countries in the world with the support of modern Marxist economy theory, revealing their development laws and operating mechanisms, and exploring the promotion of economic civilization, social progress, and the construction of a community with a shared future for mankind. It’s a great honor.

I was born in April 1930 and began to engage in education in 1954. In 1956, I entered Sichuan University, a central university specializing in economics. In 1959, when I was a student, as one of the editors-in-chief, I co-authored the “Lecture Notes on the History of Foreign National Economies”, the first “economic history of the world” work of modern China guided by Marxism. In the same year, this book was published by the higher education press and was selected as teaching material by some colleges and universities. After graduating from Sichuan University in July 1961, I was assigned to teach at Beijing Capital University of Economics and Business. Since then, I have successively published a series of treatises, including 15 individual independent monographs, co-au-

\*The text has been sent to BRIQ by the WAPE Secretariat and translated from Chinese to English by Onurcan Balci.



Ding Bing, Professor of the Capital University of Economics and Business won the Marxian Economics Award in 2021.  
(Website of the Capital University of Economics and Business, 2021)

thorship, being chief editor and deputy chief editor, a total of 104 works, as well as 260 important academic papers and translations. Among them, about 4 million words were written by me.

Among my independent monographs, there are two books: “A Brief History of Marxist Political Economy” (1983) and “Contemporary Western Economic Schools” (1993), which have won the second prize of academic excellence at the provincial and municipal levels in Sichuan and Beijing. “Principles of Contemporary Western Economics” (1988) won the Beijing Municipal Excellent Textbook Award in 2006 and the first prize of excellent textbook award of Capital University of Economics and Trade in 2000. It has been revised and released in the 7th Edition (September 2019). The cumulative number of prints is about three hundred thousand, one of the works with the longest distribution duration and the largest number of similar works in China. The book “Modern Western Economic Theory” edited and published by me in 1995, was also highly praised by Professor Chen Daisun,

who is recognized as the leader of economics in China, and believed that it broke new grounds in China’s foreign economic research. Therefore, it has aroused strong repercussions, praise and sensational effect in social science and education. In 1996 and 1998, it successively won the first prize of excellent achievements in Social Sciences at the municipal level in Beijing and the economics prize of excellent achievements in Humanities and Social Sciences research in colleges and universities of the ministry of education.

My main academic thoughts and distinctive opinions can be summarized into the following six aspects:

**The first is on Western economics:**

Guided by Marxism, I have evaluated the theoretical system of Western economics comprehensively and systematically, adhering to the viewpoint of “One Divides into Two” to carry out the analysis scientifically. I have evaluated the “Economic Man” hypothesis, which makes the core of western economics, and pointed out that although it has

its relative rationality, it is actually a crude theory defending the eternal capitalist system. Moreover, I have analyzed and criticized the wrong approach of mentioning Marxist economics and Western economics in the same breath, which marginalizes Marxist economics.

**“Belt and Road” will also create an important economic foundation and diplomatic line, taking us one step closer to the realization of worldwide unity, a Community of Common Destiny for All Mankind.**

**Secondly, adhering to the “Four Cardinal Principles” and the general principles and policies of reform and opening up:**

I do oppose neoliberalism, democratic socialism, and other ideological trends that interfere with it.

At the same time, it should be emphasized that “adhering to the dominant position of public ownership is the lifeline of adhering to socialism with Chinese characteristics”.

Regarding property rights, I exposed and criticized some people who try to carry out privatization policy in China in the name of “reform”, relying on some wrong views such as Western Coase Theorem and the so-called “Inefficiency of State-owned Enterprises”.

**The third is on “New Economy”:**

In the 1990s, with the rapid development of new global high-technology, the academic circles put forward the concept of “New Economy”.

I published the article “A Brief Discussion on the Impact of The New Economy on Western Economic Theory and Economic System”, which

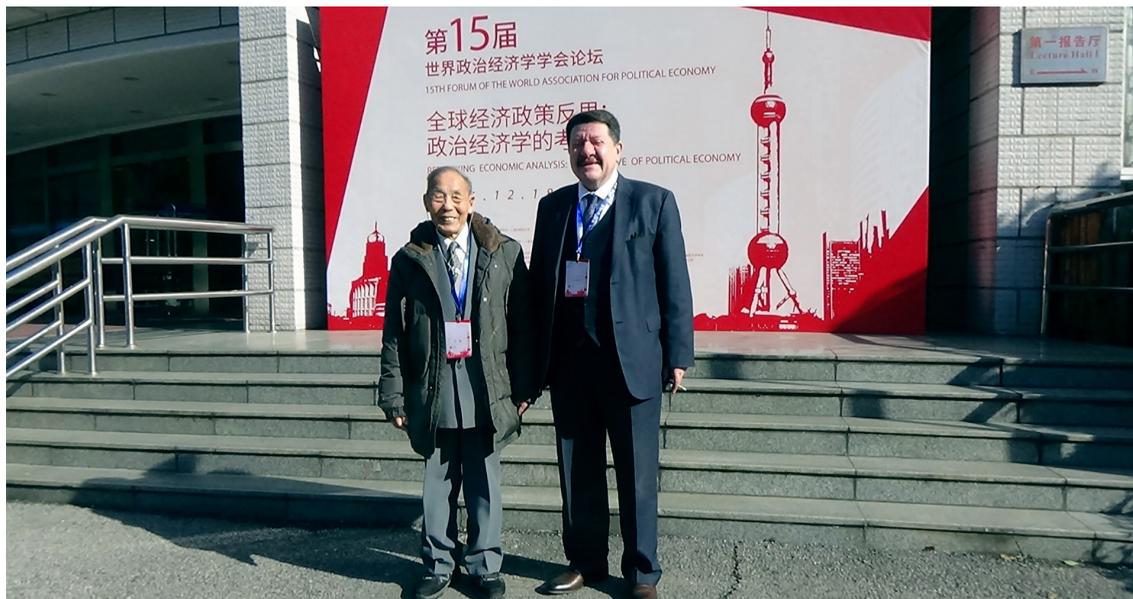
took the lead in defining the new economy as an economy based on information technology, driven by intellectual factors and network being the basic production tool. Its essence digitalized and intellectualized the economies. If we deeply analyze this development pattern, the conclusion would be: “The emergence and development of the New Economy further prove Marx’s assertion that mankind will eventually replace capitalism by communism”.

**The fourth is from our studies on the 2008 international financial crisis:**

We have clearly pointed out that the world overproduction crisis is the inevitable result of the long-term implementation of financial liberalization policy by western developed countries after the 1970s and 1980s and the rampant development of financial innovation and financial derivatives. In the investigative process, we have found that this overproduction crisis is different from the previous one. That is, it did not only stay as a domestic crisis but also shifted transnationally. That is a remarkable feature of the overproduction crisis.

**The fifth is based on research on the development strategy, the “Go Out policy”:**

After the international financial crisis in 2008, the US government put forward conservative ideas such as “Pivot to Asia” and “United States first”. Under the US government’s attempts on restraining China’s peaceful rise, I promptly published “Break through the tight encirclement and create a vast new world” and a series of papers, firmly supporting and praising Chairman Xi Jinping’s foreign strategic foresight. “Belt and Road” is a new form of economic globalization based on equality, sharing, mutual benefit, cooperation, and co-construction. First of all, it is strictly differentiated



Prof. Ding Bing with Adnan Akfirat, Chairman of the Board of BRIQ in the 15th WAPE Forum.

from traditional economic globalization based on negative factors such as exploitation, discrimination, and hegemony, which are often led by the US-centered economic globalization. Therefore, many countries, especially the developing countries, have welcomed it and have formed unstoppable cooperation to change the destructive, old way of economic globalization. “Belt and Road” will also create an important economic foundation and diplomatic line, taking us one step closer to the realization of worldwide unity, a Community of Common Destiny for All Mankind.

**Sixthly, we should be confident about the future:**

Considering China’s institutional advantages, the advantages of late technological development, independence and hard work, it is predicted that China’s GDP will surpass the United States by 2028. This also refutes the traditional view of some scholars that the growth rate of a country’s economy will slow down due to its size and pop-

ulation. In addition, we are now in a favorable situation within the fifth long wave rising period of the world economic cycle. Therefore, as long as we unite as one and work hard, if nothing goes wrong, by the middle of this century, the realization of the Chinese Dream, the great rejuvenation of the Chinese nation will be a long-term success. To truly achieve this goal, four main issues need special attention at present:

First, we must bear in mind that we must adhere to the dominant position of the public economy. Second, we must pay attention to the hidden danger of government debts. Third, we should carefully prepare ourselves to use artificial intelligence (AI) technology wisely. It is suggested to shorten the working hours to 4 working days a week on the premise of adhering to the dominant position of the public economy. Fourth, we should be highly vigilant against falling into the “Thucydides Trap”.

Thank you! 🌸

# Economic Policies of Kemalism in the Early Republican Era (1923-1938)



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## ABSTRACT

The Republic of Turkey, founded in 1923, was built on an agricultural economy using medieval production methods in a market regulated according to the interests of Western capitalists. Inheriting the institutional and social accumulation of the Ottoman Empire and the democratization and nationalization experiences that started with the First Constitutional Monarchy, the Republic undertook the task of transforming this agricultural economy into a modern national industrial economy. This study uses a descriptive case study method to examine the economic policies of the Kemalist government and the practices of “statism” from the establishment of the Turkish Republic to the beginning of World War II. The study aims to reveal the target and direction of these policies, which developed in two historical phases. The first began with the Izmir Economic Congress, whereas the second occurred in the Great Depression era. The first period was characterized by Turkey’s efforts at developing an endogenous private sector through government incentives and public expenditures directed towards infrastructure investments. In the second period, Turkey adopted an economic model driven by state-led industrial investments with an even stronger thrust. The weight of public investments gradually increased in the Great Depression era. In the final analysis, one could argue that these two historical phases reflect the implementation of a statist model of economic development with Turkish characteristics, otherwise known as the economic policies of Kemalism in the early Republican period.

**Keywords:** economic growth, industrialization, Kemalism, nationalization, statism.

## Introduction

THE 19TH CENTURY OTTOMAN ECONOMY was characterized by the opening of trade to Western countries and a peak in the weight of large landowners in relations of production. The opening of trade, which led to the expansion of Western capitalism in the Ottoman market, began after the Baltalimanı Trade Agreement, signed between the Ottoman Empire and the United Kingdom in 1838. This was followed by the implementation of the Tanzimat reforms for Westernization (1839), which further increased the disadvantages of Ottoman manufacturers. The law that restricted the Ottoman trade to the Ottoman citizens was abandoned, and “internal customs” were abolished for Western investors (Pamuk, 2014: 216). Greek, Armenian and Jewish merchants, who were already controlling much of the Ottoman trade thanks to their strong community bonds as part of the “millet system” inscribed

in Ottoman law, benefited greatly from the expansion of Western capitalism (Gürcan & Mete, 2017: 39-40). The diplomatic and commercial advantages provided by the Ottoman capitulations (İnalçık & Seyitdanlıoğlu, 2020: 547) gave further impetus for the expansion of Western capitalism and its compradore collaborators.

The first parliament in the Ottoman era was opened in 1876, with the intervention of bureaucrats and intellectuals known as the New Ottomans, who also led to the adoption of the first Ottoman constitution. This event, which went down in history as the declaration of the First Constitutional Monarchy, marked the institutional beginning of Turkey’s democratization in the Ottoman era. As such, Turkey accumulated a 50-year tradition of democratization that started with the First Constitutional Monarchy in 1876 until the foundation of the Republic. On the other hand, the Turks in the Ottoman Empire had not been able to engage in any

economic activity other than being constantly called to war and working in agriculture in the remaining times for about a hundred years (Kuruç, 2018: 299).

**Kemalist principles bear the mark of not only the French Revolution, but also Eastern European Narodism and the Soviet Revolution.**

Throughout the 19th century, Western states made large infrastructure investments in Anatolia (Pamuk, 2020: 104) and shaped the development of the Ottoman market economy. Rather than significantly improve the relations of production and productive forces in the Ottoman Empire, this process led to a lumpen-development that only served to improve the market share of Western capitalism and tied the interests of the large landowners to the Western states (Pamuk, 2014: 216). After the declaration of the Second Constitutional Monarchy in 1908, however, the Committee of Union and Progress (CUP) made attempts to raise a national bourgeoisie. The Industry Incentive Provision, enacted by the CUP in 1913, formed the basis of the Industry Incentive Law enacted by the Kemalist government in 1927 (Kasalak, 2012: 73). Taking advantage of the onset of World War I, capitulations were abolished unilaterally, and customs tariffs intended for sector protection were imposed (Pamuk, 2020: 164). However, from the Balkan Wars that started in 1912 to the Turkish War of Independence in 1923, the continuous wars interrupted the construction of a national capitalism and the full-scale implementation of industrialization policies (Gürcan & Mete, 2017, 40-41). It is therefore safe to argue that the Republic of Turkey has inherited a weak industrial base, even though the CUP era provided a strong inspiration for young Turkey's future endeavours.

The lack of an endogenous industrial base led

the founding cadres of young Turkey to adopt statist measures following the declaration of the Republic in 1923. Under these conditions, the Kemalist government concentrated its efforts on accumulating capital (Kuruç, 2018: 309). Mustafa Kemal Atatürk, the founder of the republic, defined Kemalism as “the main lines of our projects [those of the Republican People's Party, or RPP] covering not only the next few years but the future” (Yüceer, 2021: 1). These principles were summarized as the Six Arrows (Republicanism, Populism, Secularism, Revolutionism, Nationalism, and Statism). The Six Arrows bear the mark of not only the French Revolution, but also Eastern European Narodism and the Soviet Revolution. This being said, Kemalism is also shaped by the peculiarity of Turkey's historical conditions.

In 1931, Mustafa Şerif Bey, Turkey's Minister of Economy at the time, admitted that during the foundation of the Republic, “our citizens have nothing but to work as ranchmen in the economy (Kuruç, 2018: 418).” In the same period, Nurullah E. Sümer, General Director of Sümerbank, made similar remarks: “Turkey used to have an empirical economy, a medieval economy. Agriculture was barren, forests were devastated, mines were derelict, benches were broken, and the country was secluded. The Republic destroyed [these impediments] at once. The state itself took over to create an organic and planned economy in Turkey (Kuruç, 2018: 374).”

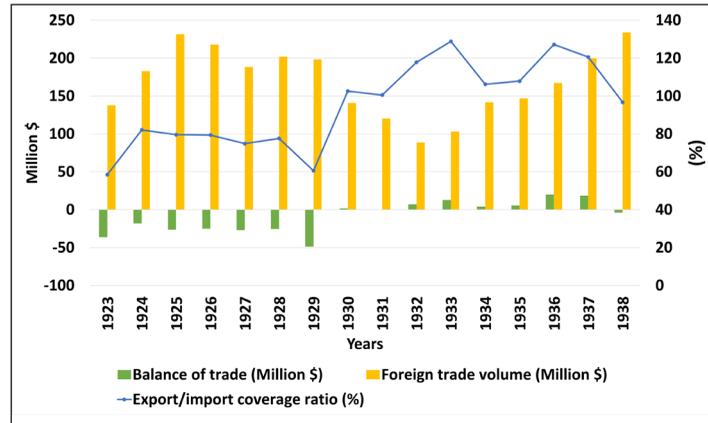
The Republic of Turkey, founded in 1923, was built on an agricultural economy using medieval production methods in a market regulated according to the interests of Western capitalists. Inheriting the institutional and social accumulation of the Ottoman Empire and the democratization and nationalization experiences that started with the First Constitutional Monarchy, the Republic undertook the task of transforming this agricultural economy into a modern national industrial economy. This study uses a descriptive case study method, understood as “one that is focused and detailed in which proportions and questions about a phenomenon

are carefully scrutinized and articulated at the outset” (Tobin, 2010: 288), to examine the economic policies of the Kemalist government and the practices of “statism” from the establishment of the Turkish Republic to the beginning of World War II. The study aims to reveal the target and direction of these policies, which developed in two historical phases. The first began with the Izmir Economic Congress, whereas the second occurred in the Great Depression era. The first period was characterized by Turkey’s efforts at developing an endogenous private sector through government incentives and public expenditures directed towards infrastructure investments. In the second period, Turkey adopted an economic model driven by state-led industrial investments with an even stronger thrust. The weight of public investments gradually increased in the Great Depression era. In the final analysis, one could argue that these two historical phases reflect the implementation of a statist model of economic development with Turkish characteristics, otherwise known as the economic policies of Kemalism in the early Republican period.

### Izmir Economic Congress and Subsequent Practices

The Izmir Economic Congress of 1923 convened to draw an economic framework and determine the method leading to the establishment of the Republic. Farmer, merchant, laborer, and industrialist groups represented the Turkish nation at the Congress. Each class made their own proposals to advance their material interests (Pamuk, 2020: 181). Despite the diversity of class interests, the common attitude of each group was in favor of nationalism and protectionism. Most of their claims expressed a strong desire to be treated as equals with foreign investors, to benefit from the state’s protection, and to encourage the consumption of local products (Kuruç, 2018: 306). Turkey’s first decisions on state-led industrialization and economic nationalizations were taken during the Izmir Economic Congress. Much of these

Figure 1. 1923-1938 Turkey's Foreign Trade

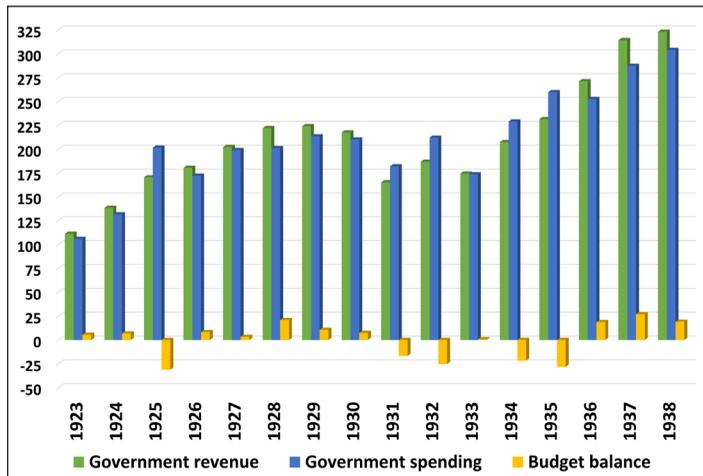


Source: TÜİK, 2012.

decisions took account of the predominantly agricultural character of Turkey, where two-thirds of the population were peasants. Therefore, the decisions mostly focused on easing the peasants’ tax burden, improving agricultural production, increasing domestic industrial production, and constructing a stronger railway infrastructure (Kuruç, 2018: 251).

The first action of the Kemalist government in agriculture was the abolition of the “tithe” (aşar) in 1925, a medieval tax collected from 10% on the peasants’ gross yield (Şenses, 2018, 238; Toprak, 2019: 243). The abolition of this tax, which used to account for approximately 25% of state revenues, meant that land ownership passed from the sultan to the nation (Kayra, 2018: 77). It created a favorable environment for the development of an efficient agricultural sector. This was followed by Ziraat (Agriculture) Bank, which had been established in the Ottoman era, initiating corporatization in agriculture (Kuruç, 2018: 453). In addition, a separate Ministry of Agriculture was established. These conditions led to a 2.5-fold increase in wheat production, the most important crop in Turkey’s agriculture between 1925 and 1930, while the yield per hectare tripled (Kuruç, 2018: 458). In the meantime, the government worked to reorganize land ownership. In 1927, it forced the large landowners

Figure 2. 1923-1938 Budget Balance (Hundred Thousand TL)



Source: DiE, Statistical Indicators 1923-1990.

to migrate to the West from Eastern regions where tribalism was more pronounced, as well as in Konya and Muğla. In return for a compensation fee, it seized their lands and distributed them to landless peasants. The government's declared intention was to free the peasants from captivity and motivate them to work (Kuruç, 2018: 470, 471).

In this environment, agriculture became the locomotive of the Turkish economy after 1925 (Kuruç, 2018: 254). Critical developments in this period included the abolition of the tax on sugar in 1925 and the production of the first Turkish cube sugar in 1926 (Kayra, 2018: 211). In the meantime, the state adopted a new industrial policy for promoting private capital accumulation until the Great Depression era (Boratav, 1994: 12). This corresponded to a "mixed economy" model, which was to acquire a stronger role in the Great Depression era. What characterized this model were and nationalizations and targeted incentives for industrialization rather than the spontaneous functioning of free markets (Kuruç, 2018: 254). In the period leading up to the Great Depression era, the state mobilized infrastructure investments for the construction of railways, ports, and waterworks with the aim of facilitating the expansion of

a market economy and a stronger industrial base (Kuruç, 2018: 297). At this point, it is worthwhile to recall that most of the railways and ports had been controlled by Western states since the middle of the 19th century. However, the new republic turned infrastructure investments into a "national issue" and undermined the Western control in this area (Pamuk, 2019: 179). Maritime transport was nationalized with the enactment of the Cabotage Law in 1926.

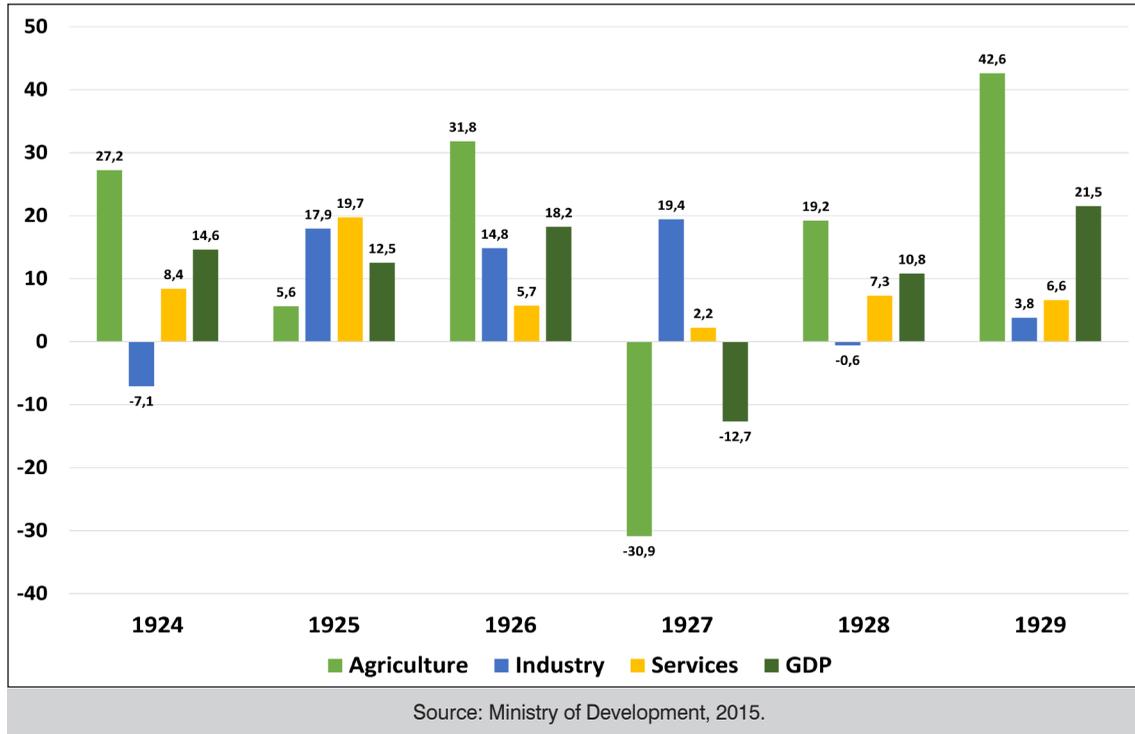
### Trade and Exchange Policy of the Republic

The underdeveloped state of the Ottoman market economy had facilitated the continuation of the Istanbul-centered foreign trade policy that undermined local producers. In the 19th century, the Ottoman Empire suffered continuous foreign trade deficits. Consequently, the budget deficit was deepened to the point where domestic and foreign debts became unpayable. On the contrary, the Republic built its policy on "balanced budgets" (Kuruç, 2018: 273) and "avoiding external deficits". In implementing a balanced budget policy, the Kemalist government followed two different methods: a) avoiding closing the budget deficit through foreign debts and b) restraining the government's ability to expand the budget by placing the financial affairs under absolute parliamentary control. Two policies were adopted to avoid external deficits: a) imposing tight controls on foreign exchange and foreign trade and b) collecting taxes (Kuruç, 2018: 291).

Between 1923 and 1938, the ratio of exports to imports showed an increasing trend. Despite direct incentives and investments provided by the government, budget surplus was the norm for much of the period 1923-1938 (Figure 2).

The Kemalist foreign trade policy was essentially geared towards industrialization and nationalization. Şeref Bey expressed the situation as follows: "If a nation is undeveloped in production, counting on the regulatory ability of the international market to produce a balanced economy means turning a blind eye to the collapse of the country (Kuruç, 2018: 283)." Therefore, the Kemalist

Figure 3. 1924-1929 Growth rates by economic activity (%)

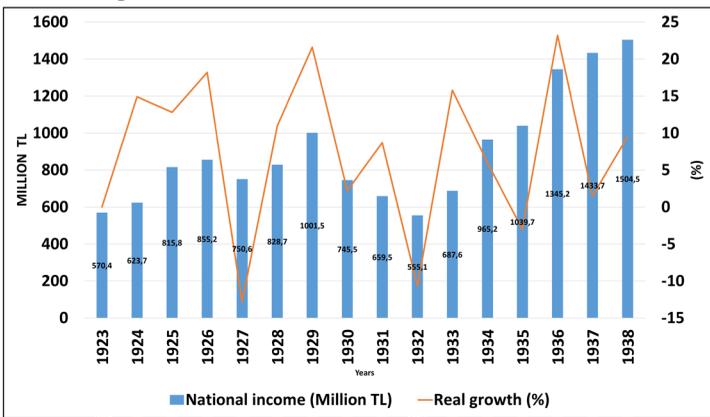


government took a strong stance at the Lausanne Peace Conference, which led to the abolition of the capitulations that gave legal and commercial privileges to the Western states. However, the conditions agreed in the Lausanne Peace Treaty forced Turkey to implement customs tariffs in accordance with the rates determined by the CUP government in 1916 (Pamuk, 2020: 176), which delayed the implementation of a new customs policy until 1929 (Özkardeş, 2015: 2; Şenses, 2018: 238). With the onset of the Great Depression in 1929, Turkey began to use customs tariffs in favor of its nationalization and industrialization policies (Kuruç, 2018: 284). This marked the beginning of a new era in Kemalist statism. This era testified to mounting discussions on whether the nationalization and industrialization policy is to evolve into liberalism or a stronger form of statism. While İsmet Pasha, the then Prime Minister, stated that it was out of the question to “give up statism completely and expect every blessing from the actions of capitalists” (Kuruç, 2018: 312), Şeref Bey

argued that retaining the national character of the private sector's survival depends on the state controlling the dominant points in the economy. Otherwise, this would result in a system driven by “exploitation of man by man” (Kuruç, 2018: 313).

In the Great Depression era, protectionism began in foreign trade and the external deficit was ended by narrowing down the merchants' field of action (Kuruç, 2018: 426). This was supported by a “strong currency” policy (Toprak, 2019: 246) by which the government “should not allow such a delicate matter as the value of the national currency to be left to chance, apart from its own decisions and opinions (Kuruç, 2018: 290).” İsmet Pasha stated that small economic measures are insufficient and that the economic situation calls for stronger interventions through the stock market”, which “always presents an unnatural situation”. In 1930, foreign exchange control began to be implemented with the Law on the Protection of the Turkish Currency (Boratav, 1994: 125; Kuruç, 2018: 425).

Figure 4. 1923-1938 National Income and Growth



Source: Eğılmez & Kumcu, 2000.

### Industry and Banking Relations

When the Republic was established, around 110,000 workers were employed in the industrial sector. By 1927, this number exceeded 250,000, but more than 70% of businesses employed only three or fewer workers. The Industry Incentive Law, which exemplifies government efforts at developing the domestic private sector, failed to generate the expected results due to the small size of domestic investors (Gürcan & Mete, 2017: 41-42). Nevertheless, this process succeeded in creating a stronger industrial base with the construction of Kayseri and Eskişehir Aircraft Factories, Kayaş Capsule Factory, Elmadağ Gunpowder Factory, and the Industry and Mines Bank (Gürcan & Mete, 2017: 41). The state conducted investments for building and nationalizing new roads in cities including Istanbul, Ankara, Konya, Kayseri, Sivas, Samsun, Adana and Mersin (Kayra, 2018: 443). In period 1924-1929, Turkey's GDP grew by 79.1% (Ministry of Development, 2015).

In the Great Depression era, the Republic devised a new policy to synchronize banking and industry. Şeref Bey, Deputy of Economy, stated the following in his speech where he identified the causes of the Depression: "Industrial capital also came under the forcible domination of financial capital. This has created a situation where

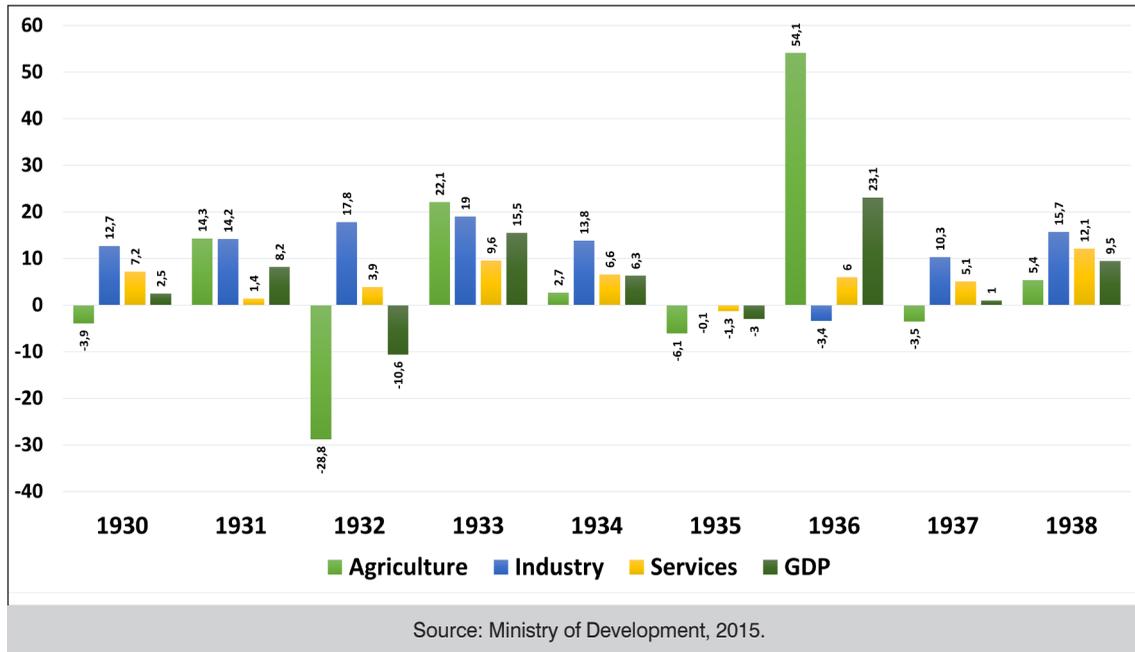
collective interests were managed by the selfishness of the individual, which is the real reason behind the depression (Kuruç, 2018: 354)." Şeref Bey believed that "banking and operating a factory are almost incompatible" in terms of profitability. In this environment, the Industrial and Mines Bank was abolished with the intention of creating two new institutions, one specialized in banking and the other on industry (Kuruç, 2018: 355). The task of providing loans to the industry was given to the Industrial Credit Bank of Turkey, and the task of managing and developing all industrial establishments was given to the State Industry Office. Kuruç likens these two institutions to the operation of two cogwheels meshing in some complex piece of machinery, which also constitutes "the essence of the [Kemalist] statism project" (Kuruç, 2018: 404).

### Recovery from the Great Depression

In the process of recovering from the crisis, Turkey pursued two basic economic policies: a) setting up agricultural cooperatives and b) accelerating direct state intervention in industry and trade. The government followed an industrialization approach to establish a triple chain linking raw materials, production, and markets within the country and attempted to mobilize domestic manufacturers accordingly (Kuruç, 2018: 370). In the Depression era, the government capitalized on the central role of merchants in lowering the prices of agricultural products. In this direction, the government attempted to establish cooperatives with the intention of organizing foreign trade. It aimed to grant each farmer family ownership of the land on which they work to increase agricultural productivity and establish production methods consistent with state policies by dividing up the approximately two and a half million properties (Kıvılcımlı, 1965: 149; Kuruç, 2018: 475).

The function of the state in the post-1929 economy went beyond the mere provision of incentives and directives. The government thus assumed a stronger role in expanding and developing the productive forces (Bora-

Figure 5. 1930-1939 Growth rates by economic activity (%)



tav, 1994: 205). Increased production in the Turkish economy was not found in abundance, but in crisis, thanks to policies for state-led industrialization (Kuruç, 2018: 365). In 1932, the First Five-Year Industrial Plan was prepared with Soviet loans and technical support (Boratav, 1994: 154). The plan was put into practice in 1934. Within the scope of this plan, which prioritized import substitution, production facilities were established in the fields of textiles, mining, cellulose, ceramics, and chemistry (Kuruç, 2018: 375). After it became clear that the plan, as the fastest attempt at industrialization in Turkey, could be completed sooner than a five-year period, preparations for the second plan began in 1935. The Second Five-Year Industrial Plan, which would be interrupted by World War II, was partially implemented as a new stage in Turkey's industrialization, with special focus on iron and steel, mining, and electricity. In formulating the new stage of statism in Turkey, Deputy Minister of Economics Celal Bayar drew on a distinction between private and state enterprises and pointed to the inadequacy of Turkey's incentive policies before the Great Depression era:

“None of the (private enterprises) established a factory in places designated by the state. However, we are establishing factories in Kayseri and Ereğli. Of course, if we had established these in İzmir, we would have earned more. But we had to go (to these regions)” (Kuruç, 2018: 385).

Statism, which was first established within the scope of small incentives for the private sector and then increased its weight with the creation of industrial plans, reached its zenith with the establishment of Sümerbank and the State Economic Enterprises (SEE). The term “fully-state-owned factories” emerged for the first time during the planning process for building the facilities to be established by Sümerbank. The prominence of the investor-producer state model facilitated capital accumulation in the hands of the state. In this direction, SEEs were established in 1938 with a structure that can mobilize, accumulate, and re-invest capital already accumulated. Indeed, the state was directly involved in ensuring the integrity of the internal market as well as the prevalence and depth of industry (Kuruç, 2018: 413). The direct involvement of the state turned industry into the locomotive of growth.

## Conclusion

The Republic had inherited an agricultural economy from the Ottoman era, which used to function using medieval methods. This agricultural economy served the interests of Western capital. Besides transportation and trade, most companies employing wage workers belonged to Westerners or their compradore collaborators from the Ottoman “millet” system. Most of the Ottoman merchants, large landowners, and financial capitalists cooperated with Western states. This being said, the Ottoman bureaucrats and intellectuals had led a movement for democratization and nationalism, whose legacy inspired the Kemalist economic policies for “nationalization” and “industrialization” in the early Republican era.

The post-1923 economic policies in the early Republican era can be examined in two successive periods. The first period lasted until the Great Depression and was characterized by policies that seek balanced budget, balance of payments, strong currency, and a mixed model of industrialization. In the second period, Kemalist statism focused on promoting the private sector by gradually establishing an economy where the state became a direct and effective producer. Kemalist policies served to reinforce the domestic economy through land distribution to landless peasants, agricultural cooperatives, trade protectionism, and foreign exchange control. These developments also show that the Republic struggled to eradicate the medieval relations of production. As a result, Turkey has become a country with well-established institutions that can implement rapid and targeted industrial plans. Kemalist policies for “nationalization” and “industrialization” revealed the benefits of state intervention in the Turkish economy. 

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## CEMİL ŞAHİN



## Friday prayers in the Blue Mosque

*My great interest in history, architecture and art started after 1992. It has become my passion to take photos of historical minarets, domes, bridges and fountains, in short, the works bearing the traces of the past and the magnificence of those works of ancestors. The most concrete examples of the world of history, civilization and religion appear as architectural works. Historical heritages, each of which we can observe a different message, style and technique, have an important place in the spiritual world of our people. I've introduced dome photography and art in newspapers, magazines, internet news and live broadcasts. I have two important prestigious works; one of them is "Istanbul in Photographs From the Lens of Cemil Şahin" and the other is "The Book of Mağlova". I aim to convey the secrets of those works through photographs and expand people's horizons. My work continues in an effort to leave better works of art for the future.*

## KAĞAN GÜNER



*Kağan Güner, who has works in the fields of public art, painting, sculpture and illustration for children's books, completed his college education at Mimar Sinan University and Chelsea College of Art and Design. He is one of our national artists at UNICEF and UNESCO Asia Pacific Cultural Center. His works, which received awards at international art competitions, have been exhibited in world capitals such as New York, London, Cardiff, Paris, Bologna, Lisbon, Bratislava, Istanbul, Tehran, Tokyo, Seoul and international centers such as the Museum of London, Itabashi Art Museum and the Centre Pompidou. After 20 years of living in London, the artist settled in Famagusta in 2008 and began to lecture on design education at the Eastern Mediterranean University. He continued to make art works in Famagusta, Istanbul and London. He died of cancer in 2011, which he had been fighting for 3 years. His doctoral thesis titled "The Birth of Modern Turkish Art", which he worked on at London University-SOAS, was published by his brother Ogan Güner after his death.*

\*\*\*

*Anatolian magic is a mixture of civilizations' cultures in Anatolia, just like Anatolia itself. It is a melding of everything brought by waves of immigrants from the Far East, India, Caucasus, Siberia, the Middle East for millennia, and by many cultures from the Hittites to the Sumerians, from Shamanism to Sufism.*

## TURHAN SELÇUK



*Turhan Selçuk was born in Milas/Turkey in 1922. Selçuk's first drawings were published in 1941, in the newspaper Türk Sözü. His drawings appeared in various journals and newspapers such as Akbaba, Milliyet, Akşam, Yön, Yeni İstanbul and Il Travaso which is an Italian humor magazine. In 1957, he created his famous comic character Abdülcanbaz. His cartoons rely on contradictions, solidarity and misunderstandings in human life. While he criticizes people, he tries to educate them by showing the good and truth. Thought is the main point of his cartoons and humor has the second priority. His illustrations are brief, clear and stunning. In 1992, Turhan Selçuk celebrated his 50th year in the world of art with an exhibition. Between 1993 and 1997, his graphic art exhibition, "İnsan Hakları" (Human Rights) visited major cities of the World, and in 2005, a selection of his original prints was exhibited in various cities in Germany. He died in 2010 in Istanbul/Turkey. He was one of the founders of the Turkish Cartoonists Association and he was also granted numerous awards.*

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