

China: A Socialist Model of Development?



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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".

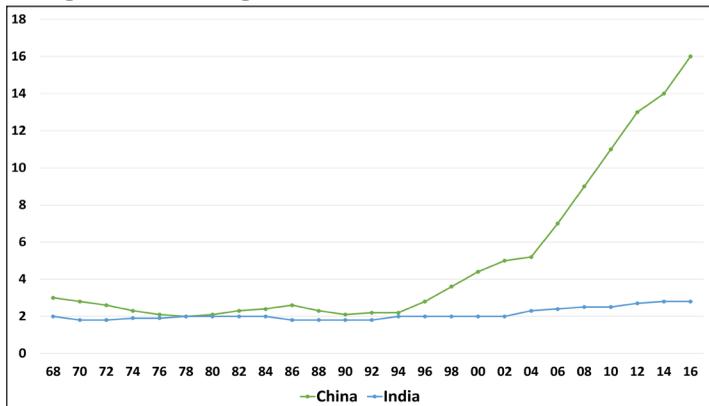
Keywords: China, development, inequality, productivity, socialism.

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.

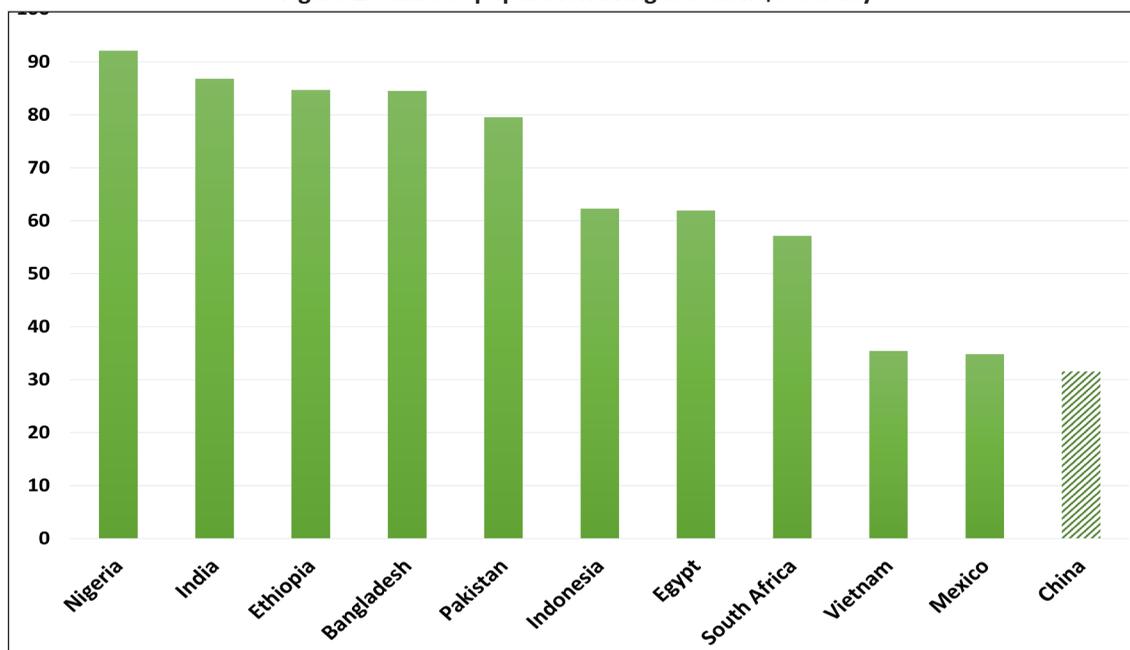
Even if China's average real economic growth were to slow from hereon to about 5% a year instead of the near double-digit expansion of the past, the gap with the G7 economies would continue to narrow. China's working population has now peaked, but there are still hundreds of millions of rural workers 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).¹

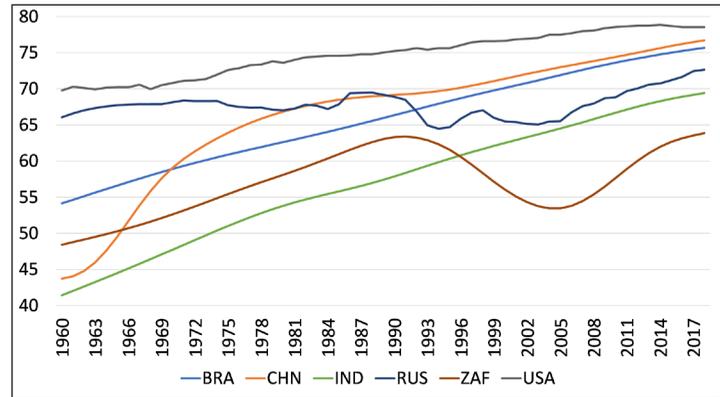
China’s HDI was 17% below the world average in 1990 and less than two-thirds of the advanced economies (OECD). It reached the world average in 2010 and just prior to the start of the COVID-19 pandemic was 3% above - and 85% of the OECD average. India is still 13% below the world HDI average. China is 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.²

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

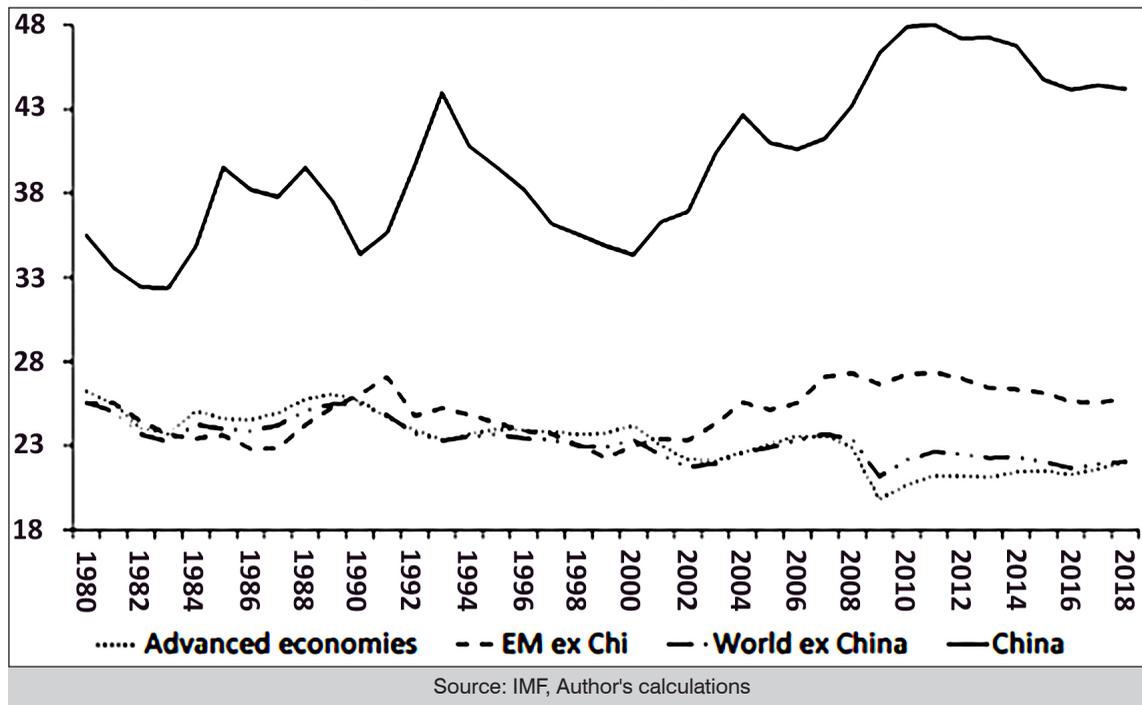
housing) rose 9.7% a year in 1952-78 and 10.9% in the post-Deng period (World Bank 2013a). It is this sustained high accumulation (Figure 5), enabled by surplus transfers from rural areas, that explains the success of industrialization and, to a large extent, the robust rate of GDP growth.

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.”)³ 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.⁴ 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.⁵

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.⁶ 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 &

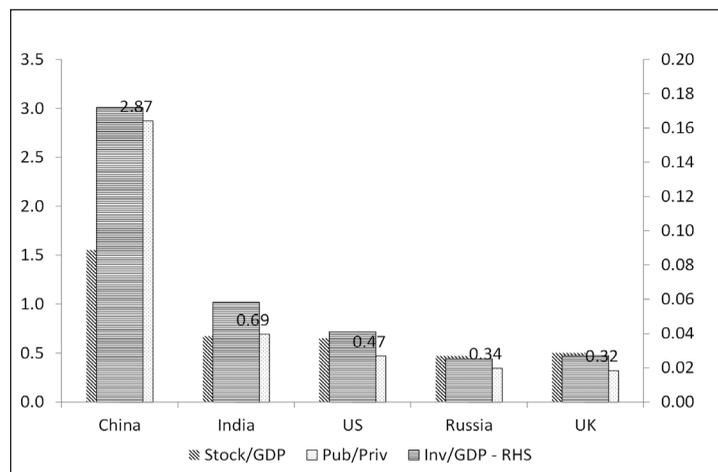
Kyle, 2011: 21) and “it is reasonable to conclude that by 2009 nearly half of China’s economic output could be attributable to either SOEs, SHEs, and other types of enterprises controlled by the SOEs indirectly. If the output of urban collective enterprises and the government-run proportion of TVEs are 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).

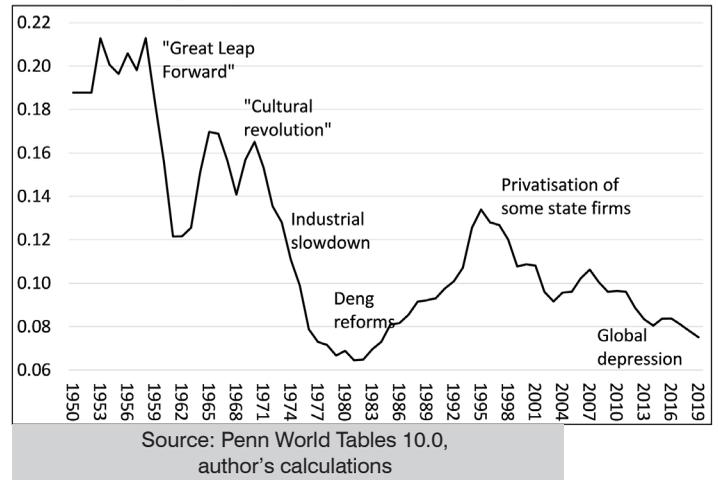
Productivity versus Profitability

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

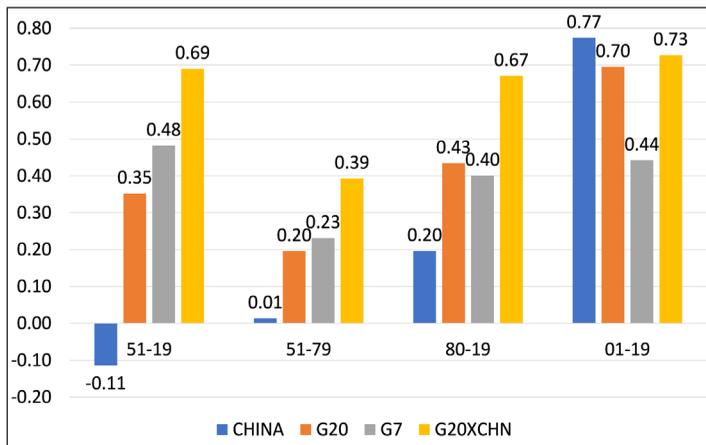


its relative contribution to the economy – and that means looking at the rate of profit on capital invested both by the state and capitalist sectors.

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).

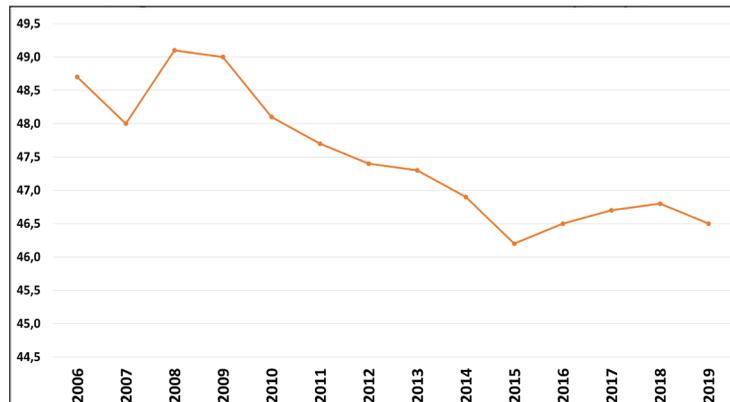
But does China follow “essentially the same laws as in other capitalist economies”? What has happened with the relative “liberalization” of the state-owned planned economy over the last 40 years is the encroachment of the law of value into new areas of the economy and with it, a huge rise in the inequality 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).

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

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



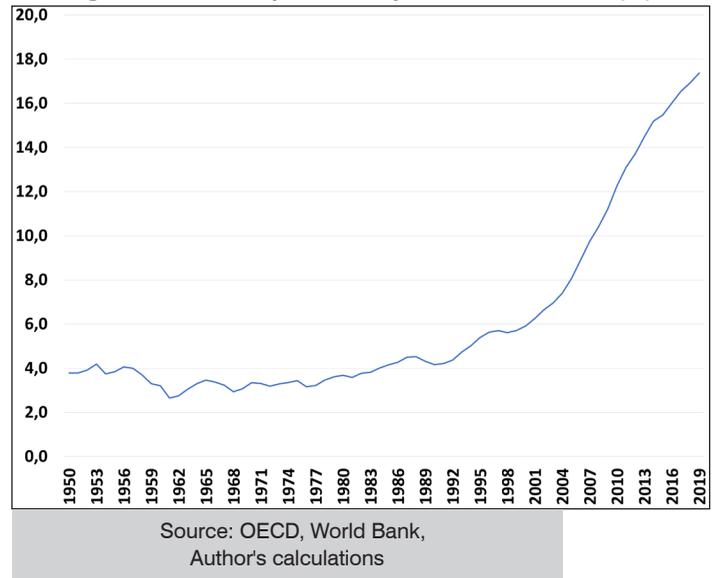
Source: International Labour Organisation, ILOSTAT explorer.

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

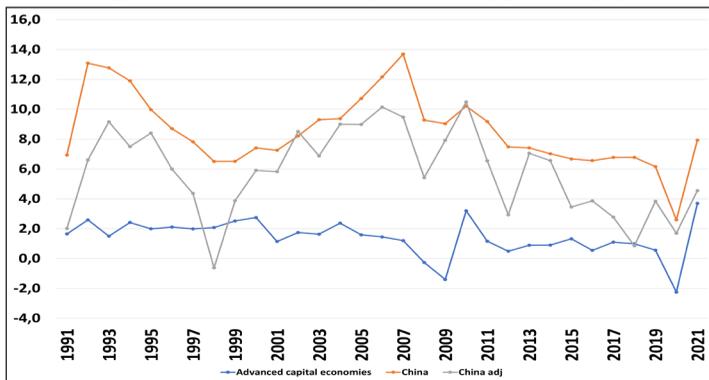
Figure 12. Ratio of productivity of labour China-US (%)



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 Initiative⁷ (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’ reforms⁸ (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).

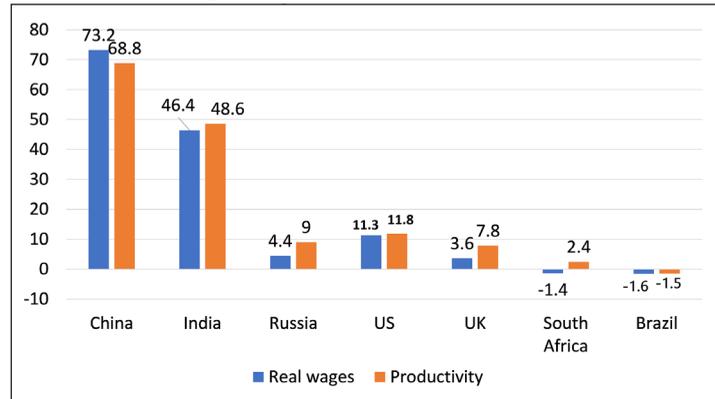
Xi’s crackdown on the billionaires and his call for reduced inequality is yet another zig in the zigzag policy direction of the Chinese bureaucratic elite: from the early years of rigid state planning to Deng’s “market” reforms in the 1980s; to the privatization of some state companies in 1990s; to the 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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