Reflections on capitalism and China’s emergent political economy

Christopher A. McNally

The first question that springs to mind when analyzing China as a capitalist political economy is whether China can by any means be termed such. In fact, when I recently mentioned to a US government official that China is undergoing a capitalist transition, he retorted that China was hardly capitalist since the state and state-owned enterprises continue to hold a central place in the People’s Republic of China’s (PRC) economy. The view espoused here was one of “free markets” and “free enterprise” forming the basis of capitalism, a view that would set China apart from how capitalism is purportedly practiced in the West.

A related discussion emerged during the two workshops that led to the production of this volume. One European advisor had strong doubts about the use of the term capitalism, feeling that it carried too much political and ideological baggage. Several Chinese colleagues had even stronger misgivings. As their European colleague, they felt that this term was politically suspect and shied away from using it due to the connotations it carries under Marxist interpretations. More importantly, they feared that they might encounter problems back home in China, where advocating that the contemporary PRC constitutes a capitalist political economy could have repercussions for their professional well-being.

These discussions made clear that the relationship between China’s current conditions and the political economy of capitalism needed to be clarified. So far, though, most studies in comparative political economy, especially the varieties of capitalism framework, have concentrated on the institutions of advanced capitalism as practiced in North America, Europe, and Japan. Their applicability to China is thus limited.

In addition, an understanding of capitalism that can be fruitfully applied to China must be as free as possible of ideological precepts. The ruling Chinese Communist Party (CCP) officially holds that China is not developing into a capitalist system. As a result, ideological factors undoubtedly tend to obfuscate the conception of China as a new emerging form of capitalism. In this respect, one advisor suggested that we just replace the term “capitalism” with “market economy,” therefore avoiding all discussion about whether China can be termed capitalist or not. However, capitalism
Encompasses much more than just a market economic system, a point to which I will return shortly.

The purpose of this chapter is to delve deeper into the general nature and logic of capitalism and in this manner provide a benchmark for evaluating China’s emergent political economy. Put differently, this chapter will work toward a working definition of capitalism that is both fundamental and precise. This definition can then serve as a measuring stick to judge the progress of China’s capitalist transition and elucidate what some of its basic properties are. In the conclusion I will further suggest how applying the capitalist lens can provide new insights on the present and future of China’s monumental transformation.

**Conceptualizing capitalism**

The workshop discussions showed that we must attain a better understanding of capitalist systems before we can effectively apply the capitalist lens to China. Given China’s unique national circumstances such a conceptualization of capitalism must be sufficiently encompassing to capture all forms of capitalism across time and space, yet also sufficiently precise to delineate what exactly sets capitalist systems apart from other historical formations. In such a working definition capitalism must also be viewed as a purely analytical concept that eschews ideological emphases.

Over the past 500 years, capitalist systems moved from being minor political economies at the fringes of European civilization to unleashing the most momentous social transformations in human history. Nonetheless, specifying the exact nature of capitalism remains problematic. Definitions of capitalism remain influenced by ideology and generally fall along a spectrum from right to left. On the right or neoliberal side, capitalism represents the “organization of the bulk of economic activity through private enterprise operation in a free market” (Friedman 2002: 4). This conception expresses the notion popular in the United States of the core characteristics of capitalism: private enterprise and “free” markets, while the state only acts as a “night watchman” to enforce economic rules and protect private property.

A more centrist view defines capitalism “as a system in which the means of production, in private hands, are employed to create a profit, some of which is reinvested to increase profit-generating capacity” (McVey 1992: 8). Again private enterprise is up front, but Ruth McVey, a political economist working on Southeast Asia, stresses the expansive nature of capital — private persons must be given opportunities to accumulate capital to reinvest and generate more capital.

On the left, markets and capital accumulation retreat as the central features of capitalism and class relations — the “social relations of production” — emerge instead. Dudley Dillard provides a classical definition of capitalism as inspired from the left: “Fundamental to any system called capitalist are the relations between private owners of nonpersonal means of production (land, mines, industrial plants, etc., collectively known as capital) and free but capital-less workers, who sell their labor services to employers” (Dillard 1992: 85). Dillard’s ensuing analysis on the development of capitalism pays attention to a variety of factors, such as the emergence of long distance trade and the monetization of Europe as gold and silver arrived from the new world. Nonetheless, Dillard’s definition emphasizes class relations between those with and without capital. It omits market institutions, the pluralization of social forces, and the central role of the state.

All of these three definitions capture popular impressions, but only partially explain the underlying political economy of capitalist systems. Fortunately, over the past years several endeavors have transpired that attempt to shed the ideological baggage surrounding capitalism to arrive at an objective understanding of its properties. Perhaps inspired by the demise of the debate on socialism versus capitalism after the Cold War ended, capitalism in these works is perceived as the underlying socioeconomic system shaping our era. Not unlike the term feudalism, it represents a generic mode of social organization in history.

I will here briefly mention three recent undertakings along these lines, all published in 2005, and then move on to discuss the insightful work of Robert Heilbroner published in the 1980s and 1990s. All of these works attempt to cross ideological battle lines, methodological approaches, and conceptual borders to gain a deeper and more comprehensive understanding of the socioeconomic system we term capitalism. They hopefully herald a future in which capitalism is seen as a type of political economy that can spawn a variety of social arrangements, alternatively incorporating the tenets of socialism, liberalism, conservatism, etc.

In *The Economic Sociology of Capitalism*, Victor Nee and Richard Swedberg (2005a) present a collaborative endeavor to combine insights from institutional economics with those generated by the “new economic sociology.” This edited volume constitutes an important attempt at crossing disciplinary boundaries “to advance social science understanding of the distinctive features and dynamics of capitalist economic institutions” (Nee and Swedberg 2005b: xxv). Capitalism is conceived as a system based on two crucial social mechanisms: “exchange and the feedback of profit into production” (Swedberg 2005: 7; italics in original) with the market as “the central institution in capitalism” (Swedberg 2005: 12; italics in original). While the editors emphasize exploring processes of production, distribution, and consumption, the role of state elites and of conflicts among social interest groups remain largely unexplored.

The edited volume by David Coates (2005a), *Varieties of Capitalism, Varieties of Approaches*, takes the same aim as the Nee and Swedberg volume by attempting to cross disciplinary boundaries. It focuses on mainstream economics, comparative political economy centered on the
"new institutionalism," and radical political economy using theoretical frameworks that are predominantly Marxist in origin. Perhaps the most interesting insight is how much deep-seated disciplinary cleavages have hindered a comprehensive understanding of capitalism. Coates notes how each discipline produces its own language and how each of these languages comes, "as languages always do in the social sciences, with considerable theoretical baggage buried inside it" (Coates 2005b: 4). Coates' most fundamental argument is that boundary-crossing creative synthesis will be required to attain a systematic understanding of the contemporary workings of capitalism.

One work that attempts this is Victor D. Lippit's *Capitalism* (2005). Lippit offers an objective and stimulating view of capitalism, especially its dark underside of increasing economic inequalities and environmental degradation. Coming from the tradition of radical political economy, Lippit consciously takes insights from Marxist thought, including an understanding of capitalism's core contradictions and the "grasp of capitalism as a distinctive mode of production and social formation" (Lippit 2005: 15). Nonetheless, he also notes how neither "the labor theory of value nor the falling rate of profit theory is convincing" (Lippit 2005: 16). Perhaps most importantly, Lippit does not succumb to a rigid and deterministic view of class struggle the way many followers of Marx have. In his words:

Since there is no viable alternative to capitalism, . . . , and since the capitalist system is likely to be with us for several more centuries at least, my analysis of capitalism is intended to promote thinking about the dynamics and contradictions of the system with a view to enhancing its positive features and ameliorate its most destructive and socially reprehensible ones.

(Lippit 2005: 4)

The above just represents a snapshot of new efforts by economists, sociologists, institutional political economists, and radical political economists to grasp the nature of capitalism. In fact, any comprehensive analysis of the fundamental properties of capitalist systems would have to incorporate the works of classical political economy. Space constraints do not allow for this here. Rather, I will build on the insights of the late Robert Heilbroner (1985; 1993). In these works Heilbroner masterfully distilled the insights of Smith, Marx, Schumpeter, and others to arrive at a fundamental, yet precise, conception of capitalism.

Heilbroner emphasizes three central elements that define the nature and logic of capitalism: the drive to accumulate capital; the emergence of market society; and the bifurcation of secular authority. All three of these elements are by nature dynamic and can therefore be applied to assess the character and development of China's political economy. I first introduce these three elements in more detail. In the next section, I apply each of these three elements to the contemporary PRC, thus conceptually "measuring" to what extent China is undergoing a transition to capitalism.

The first defining feature of capitalism is that it unleashes a distinctive drive to extract and accumulate capital by humans. This drive becomes "the major organizing basis for sociopolitical life" (Heilbroner 1985: 143). Since capital is intrinsically dynamic, it can change its form from commodity into money and then back again (cf. Marx's M-C-M'). This dynamic nature of capital engenders a continuous process characterized by the repetitive extraction and reinvestment of capital, a process that unleashes new productive forces or as Heilbroner contends: "Capitalism is a system organized to search for, and to seize on, whatever technological and organizational changes offer profitable chances for expansion" (Heilbroner 1993: 134–135). This in turn fosters social, economic, and political progress, one of capitalism's unique historical properties (see Heilbroner 1993: 30–37).

The second element of capitalism concerns the structuring role of markets. Unmistakably, the first function of markets "is to allocate labor to those tasks that society wants filled" (Heilbroner 1993: 99), a process that cannot take place in a society that controls the flow of labor. Markets are also indispensable to channel other factors of production. Some of the most potent opportunities to accumulate capital result from the establishment of markets for land and financial capital. Most importantly, the market system must dominate the functioning of the economy and be able to create competitive pressures via the price mechanism. Markets thus constitute the necessary organizing principle of capitalism, but capitalism is a much larger and more complex entity than the market system we use as its equivalent. . . . The market system is the principal means of binding and coordinating the whole, but markets are not the source of capitalism's energies nor of its distinctive bifurcation of authority.

(Heilbroner 1993: 96)

The final element of capitalism is seldom explicated, even if it is crucial. Capitalism can only emerge with the rise of a "capital-oriented class . . . from a subordinate position within society to a position of leverage" (Heilbroner 1985: 41). Capitalism thus differs from earlier sociopolitical regimes, such as those based on religious conviction, military force, or a fixed status system.

One cannot overstate this central element of capitalism. Historically, merchant classes existed at the pleasure of state elites. Capitalism could therefore only emerge as state elites saw it in their interest to support the expansion of capital-oriented classes. This in turn entailed some political recognition of capital, such as the freeing of factor markets, the curtailment of predatory government behavior, and ultimately, the defense of private property rights. Capital must therefore arise with the goodwill of state
elites, but, as it expands, it "becomes increasingly capable of defyng, or of existing 'above,' the state" (Heilbroner 1985: 94). The state comes to rely on capital for the provisioning of revenue and the vibrancy of economic growth within its territory.

The historical reasons for capital's political ascent are complex, involving cultural, social, political, and economic factors. Nonetheless, the underlying logic is quite straightforward. Although the seeds of capitalist production emerged in many world regions, only Europe succeeded. In China, for example, merchants grew rich and could bribe their way to political influence. However, unless they became landed officials, their wealth remained at risk of confiscation by public officials (Jones 2003: xxx). The nature of China's empire made it all but impossible for Chinese merchants to withdraw their capital and move to more accommodating environments. Chinese state elites therefore restrained the power of merchant classes.

Conversely, one of the crucial ingredients for the emergence of capitalism lay in Europe's political fragmentation and growing interstate competition (Jones 2003; North 1981). While Europe possessed long distance market networks and common cultural norms that aided the expansion of market forces, Europe's political decentralization engendered increasing interstate competition. Since this competition took the form of constantly changing and ever more expensive warfare, state elites required escalating amounts of finance. The result: state elites granted a rival social stratum — capital — political space in return for greater tax revenue. Due to Europe's fragmented political order, capitalists could also move capital to territories that offered higher returns and lower risks, engendering institutional competition among and within political units. Two simultaneous dynamics unfolded: the emergence of an economic realm that fostered the expansion of capital accumulation; and the evolution of the modern European nation-state system (Mann 1986; Tilly 1992).

The ascendancy of European capital triggered a historically unique arrangement: the bifurcation of secular authority. As commodity flows grew and market forces expanded, entrepreneurs took over the major influencing role in allocating goods and services. The power structures of "the state" and "the economy" became different realms, each with its own logic, yet a need to coexist in the same territory. "What we do not ordinarily bear in mind is that this duality of realms, with its somewhat smudgy boundaries, has no counterpart in noncapitalist societies" (Heilbroner 1993: 69).

In other words, capital survives in a mixed state of independence from and dependence on state power. Views of the capitalist system as being based solely on private capital and markets are therefore misconceived. Although the state's full economic power remains in the background during peacetime, it represents a key force shaping capitalist accumulation. As Douglas North (1998: 13) maintains, "... the search for efficient economic organization leads us to political organization, since it is the polity that defines and enforces the economic rules of the game."

Another key point to note is that the bifurcation of secular authority not only benefits capital. The state also experiences an expansion of its authority into new realms. For example, the monetization of the economy creates opportunities for increased taxation, in turn giving the state greater financial resources to expand its authority nationally and internationally. Perhaps most importantly, capital to thrive seeks reconstituted and expanding state power. As Andrew Gamble (1994) has argued, a free economy requires a strong state. Even in the United Kingdom's antistatist Thatcher years the revival of market forces tended to increase state regulation.

To sum up, three central elements distinguish capitalist systems from earlier social systems. First, capital must be able to expand in the continuous process of investment, extraction, reinvestment, and further extraction. The motivating dynamic of capitalism therefore rests on "the driving need to extract wealth from the productive activities of society in the form of capital" (Heilbroner 1985: 33). Second, this condition can only be attained when markets constitute the organizing principle of the economy. The free flow of capital and fierce competition are necessary selection mechanisms, engendering what Schumpeter aptly termed "cycles of creative destruction." Finally, the rise of capitalists to both economic and political prominence constitutes the sociopolitical turning point for the emergence of capitalism. With the growth of capital-owning social strata a fairly autonomous, self-directing realm of the economy transpires, bolstered by capitalists' fundamental power to withdraw capital from use if returns are insufficient or risks too high.

In this conception of capitalism, the role of the state and its relation to economic forces play a decisive role. As the productive and financial resources controlled by capital expand, they tend to circumscribe the hitherto absolute authority of the state. Indeed, the relatively autonomous economic realm that characterizes capitalism can only occur with "the recognition of clear 'constitutional' constraints on the power of the state to violate private space of the individual or to commandeer his or her property" (Heilbroner 1985: 89).

Some might see these three elements as omitting what the Marxist tradition views as the central element of capitalism: its unique "social relations of production" centered on the accumulation of the means of production (materials, land, tools, etc.) into the hands of a few capitalists; and the transformation of human labor into wage labor. Individual laborers lose their own means of production, which in turn exposes them to the manipulations of capitalists seeking to maximize profits. Consequently, labor's contribution to production is undervalued, triggering class struggles over the "economic surplus."

While this characterization of the capitalist mode of production expresses one important contradiction inherent in the system, it should be understood as produced by the three fundamental dynamics depicted above. The drive to accumulate capital, the emergence of market society, and the bifurcation of
secular authority set in motion a set of social transformations, including the institutionalization of a broad range of social relations and organizations. Yes, wage labor and capital become two major classes under capitalism that are often in conflict, but the plurality of social interests generated by capitalist development is much broader. In fact, as capitalism develops in the 21st century, human capital (the knowledge, skills, and creativity embedded in humans) is gaining increasing currency. Wage labor is thus stratified into an array of classes, ranging from skilled knowledge workers to non-skilled “burger flippers.”

**China as a capitalist political economy**

Capitalism is certainly one of the most difficult and problematic terms in the social sciences, not least because it captures the political economy of modernity that we hope to understand. The three elements of capitalism introduced above might therefore not satisfy all readers. Nonetheless, these elements provide an essential and precise definition of capitalism, reflecting how capitalism’s driving force is embedded in human nature (the drive to accumulate capital), acts to intensify and expand market institutions as they become a central part of the human existence (the emergence of market society), and leads to a historically unique power arrangement where two separate yet mutually dependent elites rule (the bifurcation of secular authority).

Due to the dynamic nature of these three elements, they can serve as a conceptual yardstick to assess China’s transformation into a capitalist political economy. Each element offers an opportunity to see China’s thirty years of reform and opening up through the capitalist lens. Indeed, they allow us to relate what likely constitutes the early 21st century’s most important historical phenomenon – China’s rapid international ascent – to other instances of capitalist development.

**China’s drive to accumulate capital**

The process of reform and opening up unleashed by Deng Xiaoping after 1978 started a gradual but accelerating process of capital accumulation. Estimates put deposits with financial institutions in China at 34.2 trillion yuan by the end of 2006, while foreign exchange reserves with the People’s Bank of China were estimated to reach over US$1 trillion at that time (*China Economic Quarterly* 2006: 7). China thus moved from being a country characterized by capital scarcity to one with abundant capital in less than thirty years. How could this happen?

During the first phase of reforms rural households acted as the catalysts in China’s drive to accumulate capital. Agricultural reforms triggered a rise in agricultural productivity which allowed farmers to increase their savings. The share of household savings in national income almost tripled between 1978 and 1982 from 4 percent to 11 percent (Naughton 1995: 142). These increased savings provided much needed funds to state financial institutions, allowing entrepreneurial local governments to invest in a manifold of government-guided ventures. In fact, this represents an extraordinary feature in China’s development. Local officials did not appropriate or squander newly accumulated capital in conspicuous consumption. Rather, a powerful set of incentives drove local cadres to invest in industrial projects.

Deng’s reforms granted greater autonomy to local economic actors, a process that rapidly evolved into economic and political decentralization. Local officials thus attained considerable political space for economic experimentation. At the same time, local government units received decreasing amounts of financial support from higher levels, forcing them to look for new sources of revenue. Finally, local economic performance emerged as the principal yardstick to evaluate local cadre performance under the Communist Party’s nomenklatura system (Edin 2003; Huang 1996). These three developments prompted local cadres to use the capital accumulated by rural savings to expand and start local industrial ventures. In rural areas many of these ventures were Township and Village Enterprises (TVEs), which became the dynamos of China’s light industrial boom in the late 1980s and early 1990s.

Another set of reforms during this period added extra fuel to capital accumulation. China’s pricing structure was gradually liberalized; the management of state-owned enterprises (SOEs) given greater autonomy and incentives to maximize profits; and foreign trade and investment allowed to enter sections of the domestic economy. Taken together these reforms set in motion cycles of induced reforms, where each small step at liberalization created pressures for further liberalization.

In fact, as the state’s monopoly over industry eased, TVEs were able to enter markets hitherto protected for the benefit of state firms. This at first produced super-profits for TVEs but then gradually intensified competition, hurting both SOE and TVE profitability (Naughton 1992). Especially during the first half of the 1990s, continued industrial expansion created overcapacity and ruthless competition. The profitability of local industries deteriorated and local governments were confronted with fiscal crises. As a result, local governments undertook a range of reforms, most involving some form of partial or full privatization of TVEs and small SOEs (Unger 2002).

During this process the private sector’s superior economic contribution and lower draw on financial resources greatly accelerated its development. Capital accumulation moved from state entrepreneurial ventures to private entrepreneurship. As Garnaut and Song (2004: 2) put it, “The success of the private sector in a regulatory environment overwhelmingly geared to the requirements of state-owned enterprises is remarkable.”

As private firms grew in economic importance, their regulatory environment improved as well. The introduction of China’s first Company Law
in 1994 opened new avenues to ascertain private ownership by making the corporate form of a limited liability corporation available. Private firms began to rapidly increase in number and size, while moving into new industrial and commercial sectors.

Changes in China's openness to foreign trade and investment further accelerated the development of private firms. Political decentralization combined with strong incentives to maximize local growth created highly entrepreneurial local leaders that circumvented central rules in feverish efforts to establish global linkages (Zweig 2002). Especially along China's eastern seaboard Overseas Chinese entrepreneurs cooperated with TVEs and other enterprises, using them as convenient low-cost export platforms. Following the gradual privatization of TVEs and small local SOEs in the mid- to late-1990s, a highly internationalized private sector emerged in Chinese seaboard provinces.

Although Chinese government data are sketchy on the contribution of the private sector to Gross Domestic Product (GDP), Xiaolu Wang was able to estimate the contribution of domestic and foreign private firms to Chinese GDP at about 50 percent in 1999 (Wang 2004: 25–26). If including collective enterprises, many of which can be safely assumed to be operating as quasi-private firms, this contribution to GDP rises to two thirds. Overall, privatization has been very widespread in agriculture, industry, construction, retail trade, and road transport. However, it lags in producer goods industries and in the service sector, especially finance.

All told, much of the rapid growth of the Chinese economy during the reform era has been driven by the non-state sector and especially private firms (Wang 2004: 26). The gradual shift from state entrepreneurship to private entrepreneurship corresponds to earlier instances of capitalist development. In Meiji era, for example, the state served during the 1870s as the principal entrepreneur, manager, and financier of modern industry, only to sell most government-established factories to private capitalists during the retrenchment of the 1880s (Duus 1976).

Due to China's large size and developmental gaps, the shift to private entrepreneurship in capital accumulation has emerged quite unevenly, creating widely differing local political economies. For example, many government officials engage in predatory behavior to extract exorbitant fees and fines from the peasantry and small business in China's vast agrarian hinterland and underdeveloped western regions (Bernstein and Lu 2003). Private entrepreneurship is thus stifled. Conversely, along the eastern seaboard and in "suburban" sections bordering China's major cities, some local governments have moved away from direct entrepreneurship to effectively support the private sector. Local officials here employ indirect levers to promote private firms, such as financial incentives and industrial parks tailor-made to the needs of certain industries (Blecher and Shue 2001; Unger and Chan 1999).

Deng Xiaoping's reforms initiated a gradual but accelerating process of capital accumulation. This process is being sustained by the extraordinary vibrancy and dynamism of China's entrepreneurs, even if these are frequently aligned with local officials and/or state firms. And although uneven throughout the country, capital accumulation has transformed the face of China's political economy, nudging it along the path of a capitalist transition.

The emergence of market society

The emergence of a market economy has been perhaps the most widely noted aspect of China's transition. A Chinese study undertaken by Beijing Normal University (2003) reflects how the price mechanism has emerged to allocate the majority of goods and services in China. Government control of prices decreased from 141 items in 1992 to only 13 items in 2001, while the economic value of goods traded with price controls decreased for retail goods from 5.6 percent in 1992 to 2.7 percent in 2001; for agricultural goods from 10.3 percent in 1992 to 2.7 percent in 2001; and for producer goods from 19.8 percent in 1992 to 9.5 percent in 2001. For all matters and purposes, the central planning system has ceased to exist, although the government continues to issue guidance plans for a few select industrial goods (e.g. wood, gold, tobacco, salt, and gas).

Viewed from this perspective, China is a market economy. This fact, though, remains heavily debated. In international trade politics the European Union, the United States, and Japan hold that China's economy cannot be considered a market economy, while countries such as Singapore, Malaysia, and Thailand recognize China as a market economy (South China Morning Post 2005b). Certainly, politics plays a central role in the differing assessments of China's economy, but there are empirical reasons too. The most important fact is that China's economy continues to be permeated by state influence. China has so far failed to develop genuine financial capitalism since state firms continue to dominate Chinese financial institutions. Several crucial producer goods also remain almost exclusively in the hands of state firms (e.g. petrochemicals).

The strong influence of the state in producer goods industries and the financial system expresses the legacy of decades of top-down central control that creates a lingering tendency toward government interference. Nonetheless, the trend line of Chinese reforms is clearly in the direction of establishing the rules and institutions that underpin a genuine market economy. China's accession to the World Trade Organization in late 2001 reflects how the government is intent on using the gradual introduction of international competition to boost domestic corporations to improve their efficiency. In addition, the central state has consistently worked to set a competition-inducing incentive and policy framework, while yielding substantial autonomy to local governments. This autonomy, though, permits localized government interventions.

As noted before, the CCP's nomenklatura system provides powerful incentives that encourage local governments to support local economic growth.
This has tempted local cadres to use a variety of administrative tools to directly guide local economic forces, even if these actions run counter to central government edicts. Systemic ties between local firms and government cadres also tend to create incentives that favor local protectionism. The result is government interference and the uneven application of policies regarding taxation, market openness, intellectual property rights, environmental protection, the rule of law, etc.

The upshot of this state of affairs is the emergence of market forces but in a politicized context. Powers to allocate financial resources and set detailed industrial policies give the central government substantial clout over key economic aspects. Yet, it is the systemic ties between local governments and businesses that tend to produce the most glaring government interventions. While such interventions can achieve local developmental goals, in the long run they slow down the creation of a level playing field and national market.

Just as it took twenty years to shift the locus of capital accumulation to China's private sector, a realm of the "economy" separate and distinct from the "state" is only gradually emerging. Over time, political reforms that institutionalize constraints on government behavior must be implemented to solve deep-seated conflicts of interest in China's political economy. As the next section explains, such efforts are increasingly visible, but so far have not reached their full potential.

**The embryonic bifurcation of secular authority**

The bifurcation of secular authority, capitalism's unique political materialization, is at best embryonic in the PRC. As a recent study by Bruce Dickson elucidates, most individuals and groups in China do not seek autonomy but "rather closer embeddedness with the state" (Dickson 2003: 159). Indeed, higher levels of economic development in Chinese localities actually create higher levels of shared interest among government and business (Dickson 2003: 160).

This should be viewed as a logical state of affairs. Since the CCP and especially local cadres are highly supportive of the drive to amass capital, the interests of local state leaders and capital often converge in "symbiotic" relations. Consequently, the question of whether China's burgeoning entrepreneurs is a likely catalyst for full democratization is, at least for the time being, premature. The real question is whether capital can prod the Chinese state to restructure and yield substantial autonomy to the realm of the "economy." This would include the building of a relatively impartial legal system, improvements in state administration to diminish potential conflicts of interest and corruption, and greater autonomy and integrity for China's professions. Most importantly, it would entail the establishment of a functioning private property rights system in all its social, political, and economic manifestations.

My interviews revealed that many Chinese entrepreneurs exhibit a strong interest in raising levels of institutional certainty and predictability, especially by improving the efficacy of courts, state agencies, and market institutions. In fact, capital sees itself as a partner of the Chinese state, willing to push for a fairer and less arbitrary system of market norms and rules. It is particularly interested in the recognition of private property rights and the establishment of a less politicized market economy, but remains farsome of full democratization.

Evidently, China's bifurcation of secular authority is in the process of unfolding. Several major developments have already taken place. First, using a pragmatic approach, the Chinese state gradually eliminated most aspects of the command economy's legacy. Therefore, despite certain idiosyncrasies and a relatively large state sector, the PRC now possesses a bureaucratic structure amenable to that of a developing and globalizing market economy (Zheng 2004).

Linked to state administrative reforms has been the gradual privatization of the professions. Virtually nonexistent prior to 1978, most professions in China started under the sponsorship of government agencies. This lack of independence created strong conflicts of interest and sheltered professionals from litigation and disciplinary action. By the late 1990s efforts got underway to disaffiliate professions from their governmental sponsors, either by forming partnerships or incorporating them. Expanded autonomy improved the integrity of China's professions and created better incentives to provide high-quality, publicly verifiable information. However, major capacity and governance constraints continue to handicap their role, and so far China's professional culture remains riddled with corrupt and unethical practices (Tang and Ward 2003: 144–149).

A second remarkable development has been the gradual writing and codification of China's legal system. Starting virtually from scratch, the Chinese government has passed a series of laws, especially in the economic domain. The judiciary has also been revamped and is undergoing a rapid process of professionalization. Nonetheless, there remain big gaps. Judges continue to be appointed via the CCP's nomenklatura system, local government interference and corruption is common in Chinese courts, and insufficient avenues for legal recourse exist. In most aspects, China's legal system remains dominated by the CCP.

A third development affecting the bifurcation of secular authority consists of advances in the political recognition of capital. Fundamentally, the CCP realized in the late 1990s that the discrimination of domestic private entrepreneurs was counterproductive. As the most vibrant sector in the economy, producing increasing shares of tax income, employment, and technological innovation, the private sector would have to be supported to assure China's continued economic development and competitiveness. The result has been a gradual process of politically recognizing private capital.
This process began with the explicit recognition of private enterprise as an “important element” of the Chinese economy during the 15th Party Congress in September 1997, followed in March 1999 by a constitutional amendment. Another constitutional amendment in the spring of 2004 redefined private property as “inviolable” and committed the state “to protect lawfully acquired private property.” This amendment was backed up by the 2007 ratification of the PRC’s first Property Law.

The politically most important move was Jiang Zemin’s pronouncement in July 2001 that private entrepreneurs could formally enter the CCP. By 2004 about one out of every three owners of private firms was a card-carrying member of the CCP. This situation was even more pronounced among owners and managers of big private corporations (South China Morning Post 2005a). Although the relationship between private entrepreneurs and state officials is still best described as a symbiosis benefiting both sides, within private firms that have CCP representation a rather clear bifurcation of powers has emerged.

A medium-sized Chinese pharmaceutical company is a case in point. The private owner noted that his corporation established a party committee because several CCP members worked within the corporation. One of his two business partners acts as the party secretary, but the owner himself is not a member of the committee. Therefore, unlike in state firms, this party committee does not wield any real power. Its work stays in the background and focuses on building the party’s grassroots organization and conducting political study sessions for its members. The party committee also actively supports the establishment of a corporate culture, but management is fully in charge of economic matters. Evidently, the power structure within this private enterprise forces the party organization to be deferential vis-à-vis management. A clear division of labor is established that distinguishes the political realm from that of the economy.

Not withstanding these developments, the bifurcation of secular authority is far from complete in China. Private firms continue to face discrimination in financing, market access, and regulatory approvals. Private property rights, although enshrined in the constitution, remain a work in progress. And legal codes are incomplete and ambiguous. The playing field thus remains heavily tilted in favor of state interests or interests closely aligned with the state. This explains why most large private firms in China seek alliances with government and party officials. They remain willing to be co-opted individually, which results in a myriad of clientelistic relations among individual private entrepreneurs and state officials (Wank 1999). Business associations of private firms are in a similar situation. They continue to be closely tied to the party-state’s influence via corporatist links (Dickson 2003).

In the end, Leninist principles of political organization continue to permeate the Chinese political economy. The CCP jealously defends its monopoly on legitimate political organization, attempting to control and co-opt all social interests possessing resources that could challenge the party’s monopoly. Although a private sphere separate and distinct from the public domain has emerged and is eroding the government’s coercive abilities, moves toward creating effective constitutional constraints on the party-state have been very timid at best. China is undoubtedly undertaking a form of capitalist development, but the bifurcation of secular authority remains embryonic.

Conclusion

By creating a fundamental yet specific definition of the major dynamics driving capitalist accumulation, I conceptually “measured” whether China’s policy of reform and opening up is leading to the emergence of a capitalist political economy. The answer: the process so far clearly indicates that China is generating a form of capitalism.

The best established aspect of capitalism is China’s drive to accumulate capital. Almost a thousand years of petty capitalism, although always tempered by a dominant state, has created one of the world’s most vibrant business cultures (Gates 1996). It is therefore little wonder that when the door to private capital accumulation was opened after 1978, this process took off.

In terms of China’s emergent market society the picture is more mixed. Although the Chinese economy remains permeated by state influence, strides toward a fully fledged market economy are clearly visible, especially after China’s entry into the World Trade Organization. The third and most crucial element of capitalism—the bifurcation of secular authority—remains the least evolved. It is therefore in capitalism’s political materialization that China’s transition faces its biggest challenges.

The bottom-line conclusion is that China is in the midst of a monumental transition, but in and of itself this is not a highly noteworthy finding. A much more important finding is that this transition is being driven by the same fundamental dynamic that catapulted Great Britain, the United States, Germany, and Japan to international prominence—capitalist development. Indeed, as opposed to other conceptual lenses, applying a capitalist lens to China’s emergent political economy can provide a comprehensive and historically accurate picture.

First, we can conceptually “measure” the progress of China’s transition without falling into black and white categories, such as democracy versus authoritarianism; or market economy versus command economy. It is clear that in coming years the most challenging reforms will be political by nature. In this respect, the most pressing reforms concern the integrity of Chinese courts, professions, and bureaucracies, especially the establishment of a greater sense of professionalism and independence in China’s judicial system.

Second, the capitalist lens can provide insights into the political logic and possible futures of China’s transition. One of the key distinguishing aspects
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Cantonese. Interviewees were assured of utmost confidentiality, and a coding system has been employed to protect their identities.

1 See, for example, the volume by Hall and Soskice (2001). One exception in comparative political economy is the literature on the nature and logic of developmental states, which concentrates on the political economies of developing countries as in Evans (1995). I will present a more detailed discussion on the applicability of the varieties of capitalism framework to the case of China in Chapter 6.

2 In the following “capital” will also refer to “capital-holding social strata” or “capital-oriented classes.” The term “capital” thus conceptualizes both a tradable stock of assets (e.g. financial capital) and the social influence of capital-oriented classes.

3 Baum and Shevchenko (1999) attempt to conceptualize the large differences in Chinese local political economies. They note four types of local political economies: predatory, clientelistic, state entrepreneurial, and developmental.

4 For examples of “symbiotic” state-business relations under capitalist development see Gerschenkron (1962); Waterbury (1993: chpt. 8); and La Thomatases (1994).

5 See De Soto (2000) on this point.

6 Informants 20–30, 83, 182. See also Dickson (2003: 163). Interviews were undertaken during the summers of 2001, 2002, 2004, 2005, and 2006. All interviews were conducted without the aid of translators in either Mandarin or Cantonese.

References


