


Is China Socialist? Theorising the Political Economy of China

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ABSTRACT

This article investigates important and interrelated issues regarding China. It seeks to understand China's current social formation, setting out the relationship between China and socialism. To examine whether China is socialist, this article examines key principles of socialism drawn from Marx including: individuals' possession of the means of subsistence; the entitlement to a share of the means of production that are held in common; equality; and the degree to which the state is withering. Through an examination of China's social welfare regime, the rural land ownership regime, and state-owned enterprise profit sharing with citizens, the article finds that China does not meet the criteria for socialism. In this context, the article continues to evaluate – based on an examination of the ruling party's motivations and the power dynamics of several social forces – the possibility that China could return to socialism once it builds a sustaining productive dynamic. Also investigated is the role of the state, analysing state-controlled economic resources including natural objects and state-owned enterprise and their impacts on society and the economy.

KEY WORDS

Capitalism; Chinese political economy; Marx; socialism; state

Since 1978, China has been transformed to a market-based economy and has integrated into the world system. China identifies itself as a “socialist market economy,” pursuing socialist aims with market mechanisms (see Cheng 2023). Deng Xiaoping and his advisers made attempts to reformulate Marx to suit China's reform-era situation. For example, it was argued that the socialist system may be decomposed into aims and means. Socialist aims are broadly defined as “common prosperity” which contains both “prosperity” and “equity”: socialism shall not make people equally poor, nor prosperity for a few.¹ Under the banner of “socialism with Chinese characteristics,” various social groups harboured different expectations about the goal of the reform and provided their own reformulations of Marx for a market context. One interpretation is that society must pass through capitalism to build socialism, and it will finally return to the “correct” socialist path.² The official stance of the Jiang Zemin administration was that as long as state-owned enterprises

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(SOEs) control the commanding heights, the socialist tradition will not be lost (Jiang 1997).³ Liberalist reformers argue that “the essence of socialism lies in the delivery of socialist promises, not by the means it adopts ... If the Communist Party adopts correct policies to effectively prevent wealth polarisation, the socialist nature of our country can be guaranteed” (Wu et al. 1997). Traditionally socialist aims such as the extension of state ownership are now considered means rather than aims, and China’s socialist nature is not considered contingent on the share of the state sector (CPCCC 1999).⁴

How socialist is the socialist market economy with Chinese characteristics? China’s embrace of the market economy certainly deviates from Marx who wanted to abolish private property and exchanges. Further, China has actually re-established the capitalist mode of production. For many scholars, whether China is socialist is not even in question if strictly sticking to Marx. One answer is to claim that the so-called “socialist market economy” is a euphemism for “capitalism with Chinese characteristics” (Huang 2008). Some of those who share a similar view worry that in this Chinese capitalism the “danger that the system will evolve progressively – by means of this pragmatism without principles – toward a pure and simple capitalism is not theoretical” (Amin 2005, 145).

Is it possible to practice socialism in a market context? Or is this a futile search for socialist elements in a market economy? To answer these questions, it is necessary to examine the various efforts to reformulate Marx in a market context to see whether these efforts preserve Marx’s key principles. In 1997, the 15th National Congress of the Communist Party of China (CPC), following Deng’s 1992 comments on ownership, stipulated “that all forms of ownership that are in line with ‘Three Conducives’ [Deng 1993a] should and must be used to serve socialism” (Jiang 1997). In other words, both the market mechanism and private property could serve socialist aims. The Chinese government asserts that a development agenda that is in line with Marx’s vision of all-round development of people can be labelled as socialist. This reformulation of Marx promotes a notion of “growth with equity.” Is this reformulation different from liberal egalitarianism? Moreover, claims about guaranteed equity defining the socialist nature of a country do not indicate how this outcome can be achieved. If it is through redistribution, then socialism is narrowed to distributional equality; in any case, redistribution does not play a big role in reducing inequality in China as in some developed capitalist countries. In his assessment of China’s socialism, Naughton (2017) proposes four criteria for socialism – capacity, intention, redistribution, and responsiveness – and concludes that contemporary China is not socialist. Yet, his criteria are not specific to socialist societies, and are universal across capitalist democracies.

In some cases, socialism has been interpreted as an equivalent to a “non-neo-liberal” approach in a market context. Is it socialism when the state attacks monopolies, provides social security, and invests in projects such as public transportation or public housing? In the same vein, is it a feature of the socialist economy that follows a production-oriented growth pattern, preventing both financialisation and de-industrialisation? Analysts may postulate how socialists would react to the ills of capitalism in a market context, perhaps based on the socialist’s pro-worker stance. But these actions are not distinct and essential features of socialism, as Western countries also widely adopt these social democratic policies. Another claimed attempt to pursue socialism in a market context is by distinguishing a market economy with small-scale businesses and perfect competitive markets from a capitalism which is a monopolised, financialised economy, and to assert that a market economy can be “neutral” and acceptable within socialism. Based on such distinctions made by Braudel (1977) – “there are two types of exchange: one is down-to-earth, is based on competition, and is almost transparent; the other, a higher form, is sophisticated

and domineering ... and the capitalist sphere is located at the higher form”; Cui (2005, 163) argues that “petty bourgeois socialism must embrace the first type of market while rejecting the second.” Regarding the question of petty-bourgeois socialism, Marx and Engels (2022) made it clear in the *Communist Manifesto* that:

this form of socialism aspires either to restoring the old means of production and of exchange, and with them the old property relations, and the old society, or to cramping the modern means of production and of exchange, within the framework of the old property relations that have been, and were bound to be, exploded by those means. In either case, it is both reactionary and utopian.

Westra (2020) also discusses the question of market economy and suggests that society-wide markets only prevail in capitalist economies though markets of some sort exist in many historical societies. Therefore, even in the case that the markets abound with small-scale businesses, if the condition of society-wide markets is met, it qualifies as a capitalist economy. Besides limiting markets, market socialism also requires other conditions to be met – workplace democracy such as control over the conditions of work and the authority to select the managers, as well as collective control over the disposition of the social surplus and investment (Schweickart 2005, 194). Can workplace democracy avoid commodifying and alienating labour which are the core features of capitalism? De-commodifying labour not only requires avoiding economic means to compel workers to work, no matter how generous the remuneration or benefits may be, but also freeing labour from extra-economic coercion. Moreover, labour alienation means that labour becomes indifferent to use value in production, so that “as the soviet style experiments demonstrated, while eliminating markets through the instatement of society-wide economic planning largely de-commodified labour power, worker alienation persisted in the disinterestedness of labourers in production processes that product outcome from which they were structurally disconnected” (Westra 2002, 73). In other words, work must be self-motivated in a socialist society (Westra 2002, 69).

The rest of this article is structured in four sections. The next section reviews some key Marxist principles in a market context and examines whether China meets these principles. This is followed by further investigation of the possibility that China will become socialist after it passes a transitional stage. Based on this analysis, the final section will demonstrate that the China model is one of state capitalism. A conclusion wraps up the article.

Socialism and China

One of Marx’s critiques of the capitalist mode of production was of the expropriation of surplus value by capitalists while labour only received subsistence wages. Labour is not only economically exploited but also socially subordinated. The key to the capitalist mode of production is private property. This private control of capital is a social power that enables control of the labour process and subordination of labour to capital. To change this exploitative production relationship and to abolish capitalist rule, the *Communist Manifesto* proclaimed that the proletariat should “use its political supremacy to wrest, by degrees, all capital from the bourgeoisie, to centralise all instruments of production in the hands of the state, i.e., of the proletariat organised as the ruling class; and to increase the total of productive forces as rapidly as possible.” After that, as “class distinctions have disappeared, and all production has been concentrated in the hands of a vast association of the whole nation, the public power will lose its political character” (Marx and Engels 2022). In other words, the state would wither away. The future society that Marx envisions is an association of free people working with the means of production held in common; people consume a part of the product of their labour, and the remaining part serves

as the means of production collectively held by the society. Marx also cites Robinson Crusoe's pre-capitalist story of production in *Capital* to draw an analogy for the future society: "all the characteristics of Robinson's labour are repeated here, but with the difference that they are social instead of individual" (Marx 1990, 171).

Guarantee of Essentials

There is a concept of individual property and a deep sense of humanitarianism in Marx. In a socialist society people are guaranteed a part of the social product according to their ability and needs. Socialism aims to reduce risk and insecurity, eradicate poverty, and eliminate unemployment. In contrast, the liberal conception of rights is defined as "the legal capacity to strive for the things one would like to possess but do not guarantee the possession of any of them" (Marshall 1992, 21). In a market context, it is often through the state's provision of welfare to guarantee individuals' possession of essentials. The state's provision of welfare is considered here for the purpose of examining whether a system is socialist in a market context. While a socialist country needs to provide universal benefits, the universal provision of welfare is not necessarily socialism.

In assessing China, Esping-Andersen's (1990) taxonomy of welfare states is useful. It indicates two criteria for the socialist welfare state: universality and equality. China achieves near universal coverage of social security. In 2021, one billion people participated in the basic pension plan (0.48 billion people enrolled in the Pension Scheme for Urban Employees, 0.548 billion covered by the Pension Scheme for Urban and Rural Residents), while 1.364 billion people participate in the Urban Basic Medical Insurance Scheme (National Bureau of Statistics 2022). However, China scores low on Esping-Andersen's criteria for a socialist welfare state on equality of benefits. While the average public pension for urban employees replaced about 96% of the mean urban disposable income in 2018, the pension replacement rate for rural residents was only 12.5% (see Figure 1).⁵ An urban-rural divide is also found in health care expenditure and medical infrastructure. While China's social security system covers much of the population, Zhang (2020) suggests that it has elements that work against socialist-universalism: (i) although private pensions are a negligible feature of the system, the public pension is an earnings-related scheme that replicates income inequalities rather than promotes redistribution; and (ii) the Minimum Income Assistance (*Dibao*) is a means-tested poor relief which embodies the liberal principle that "public obligation enters only where the market fails" (Esping-Andersen 1990, 43).

Property

It is also noteworthy that China's rural land is owned by the village collectives, which may be seen as a legacy of the earlier socialist experiment with a planned economy where the means of production was held in common. The household responsibility system contracts land to rural households for farming or sub-contracting, but to avoid rural land privatisation, households cannot sell the contracted land. This not only prevents private land accumulation but also guarantees that peasants hold their means of subsistence (Wen 2009, 16–17).

In examining this system, Cui (2005) concludes that China's rural landownership system represents a Proudhonian version of petty bourgeoisie socialism. However, this is questionable for several reasons. First, small-scale farming generates very limited income for rural households. Second, the rural land regime restricts peasants' exit rights by

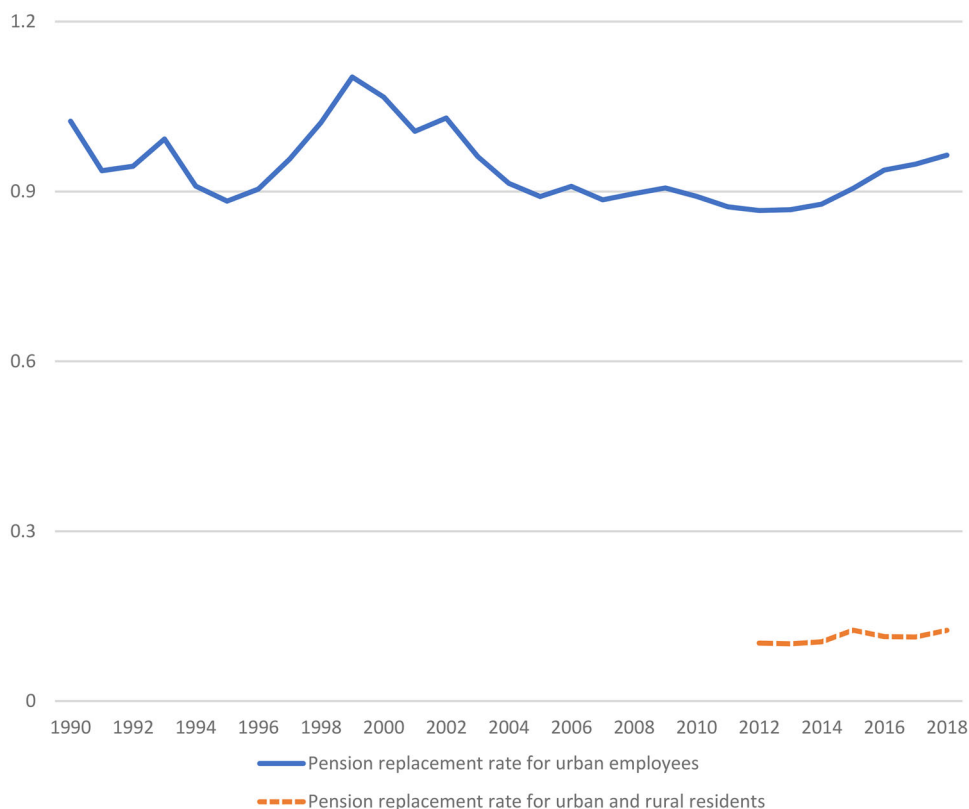


Figure 1. Pensions: replacement rate based on average disposable income

Note: Replacement rate for urban employees = average urban pension income/mean urban disposable income; Replacement rate for urban employees = average rural pension income/mean rural disposable income.

Source: Adapted from Zhang (2020, 11), with data from the National Bureau of Statistics of China.

protecting their usufruct rights. These rights are contingent on a rural *hukou*, which institutionally hinders people's mobility. Third, collective ownership of rural land does not, in fact, eliminate the possibility of land acquisition. The Land Administration Law and the Constitution legalise the state's acquisition of rural land for public purpose. Only through this process of state acquisition can the rural collective land be transformed into urban construction land and be designated for a specific development plan. The implications of this land policy include: (i) The state becomes the agent bridging the rural and the urban land markets, serving as the only buyer of the rural land and monopolising the urban land supply; and (ii) peasants may not receive the full benefits from land value appreciation. Until 2019, when it was removed, the ceiling for land compensation and the resettlement fee for peasants was set at 30 times the three-year average of agricultural output before the land was acquired. The price differentials between acquiring land from rural collectives and selling it to real estate developers and industrialists is an important source of fiscal revenues of sub-national governments, sponsoring many infrastructure projects.

Additionally, there are different interpretations of entitlement to a share of public property. Some scholars, like Zhou and Cheng (2012) argue that the individual entitlement to public property is nominal; a public property, a means of production, is not held by anyone, and what individuals own is a means of consumption. In this context, "public property" is confused with "proceeds from public property," which also includes SOEs. It

is true that public property as a means of production is held in common, but the products of public property could serve as a means of consumption so that they can be distributed among citizens. In a situation where the masses do not have a vote in social investment and do not have the right to receive proceeds from public property, the existence of such public property is not a characteristic of socialism. Rather, it is a characteristic of state capitalism. In contrast, the socialist scholar Lange (1936/1937) proposes a “social dividend” financed by proceeds from public property. Roemer (1995) proposes a politico-economic coupon mechanism for market socialism, to prevent the concentration of the ownership of stock in the hands of the rich, he argues that restraining conditions must be applied, including that the rich are precluded from buying controlling shares of all firms, and that all citizens have the same endowment of coupons. By doing so, dividends from public-owned enterprises can be equally distributed among the population. The approach of a “social dividend” financed by proceeds from government shareholding is also adaptable to mixed economies. To create this kind of public ownership in capitalist economies would need “a once-for-all capital levy which transferred some slice of property from each private property owner to the state” (Meade 1964, 71). Socialist countries that aim to develop a mixed economy can achieve the result simply by refraining from selling the whole of the state ownership to the private sector (Meade 1993).

There is not an institutionalised mechanism in China that allows individuals to access the proceeds of public property. China has transferred some SOE assets to fund the social security system, but the primary purpose has been to fund the SOE retirees’ unfunded and under-funded individual accounts due to the shift from a pay-as-you-go pension plan to the “individual account” scheme. Therefore, this is for a specific group of retirees and is unsustainable (State Council 2017).

Equality

Socialist production relations can give rise to a high degree of equality. Marx (2022) in the *Critique of the Gotha Programme* suggests that at first, “the right of the producers is *proportional* to the labor they supply; the equality consists in the fact that measurement is made with an *equal standard*, labor.” This principle of distribution – described by Marx as “stigmatized by a bourgeois limitation” – still considers differences in personal capabilities, while in the higher phase of communism, distribution will be according to one’s needs. In the capitalist mode of production the social product is distributed between capitalists and labour, with labour receiving the means of subsistence and capitalists keeping the rest. China’s embrace of the market economy means an acceptance of this capitalist distribution rule. In capitalist society, the most often used approach to tackle inequality is through redistribution, including progressive taxation and social security for all (Atkinson 2015). However, in a society there are often debates regarding the “affordability” of redistributing resources to the disadvantaged, often severely limiting welfare and embedding inequality. Moreover, a key problem with redistribution through direct taxation is that the rich can hide financial assets, while the super-rich seek out tax havens. This causes Piketty (2014, 515) to propose a global tax on capital which he admits being “utopian.”

China seems to be unable to collect sufficient direct taxes for redistribution. Income taxation is progressive, and the highest bracket is 45% (compared with 37% in the US and 45% in the UK). However, based on data from the OECD and the National Bureau of Statistics of China, in 2019, personal income tax revenue only contributed 6.575% of total tax revenue (social security contributions not included) in China (compared with in 41.07% in the US and 27.6% in the UK on a comparable basis).

Another approach to equality is to guarantee equal opportunity. The market economy is a system where all agents with diverging economic power make exchanges or compete; there is no constraint on individuals using their economic power to force other agents into unequal exchanges, particularly those who are deprived of market power. In the market economy, the rich and powerful contribute to disadvantage by, for example, maintaining a large reserve army of labour, diminishing competition, and limiting social mobility. However, the conservative response of equal opportunity does not address the unequal economic powers held by various market agents. As described by Roemer (1995, 21):

what distinguishes socialists or leftists from conservatives is, in large part, the view of how deeply one must go in order to equalize opportunities. Conservatives believe not very deeply: if there is no discrimination in hiring and everyone has access to education through a public school system or vouchers, then the conservative standard of equality of opportunity is met. Socialists believe that those guarantees only touch the surface ... Most generally, equality of opportunity requires that people be compensated for handicaps they suffer, induced by factors over which they have no control.

In a socialist society, no one can manipulate economic power to force others into unequal exchanges, and no one is forced by his/her disadvantaged circumstances into unequal exchanges. These two aims may only be partially achieved in a market economy, that is, through enhancing individuals' capabilities and restraining excess market power.

To be sure, in promoting equality, socialists consider enhancing people's ability a societal issue. Besides enhancing individuals' capability through providing essentials such as access to education and basic welfare, China devotes massive resources to improve physical and social infrastructure. Yet China's industrial policies focus on fostering competition and nurturing advanced capabilities. Socialists also consider the state's interventions to include but not be limited to preventing profiteering prevailing, preventing the emergence of monopolistic power, and pushing capital to make investments in areas that serve the long-run goal of economic growth and steer the economy towards inclusive growth. In this context, China exhibits a socialist tendency, or more precisely, a non-neo-classical stance. However, China's overall inequality is still high, not least due to regional divergence and a rural–urban divide. China's Gini index was 38.5 in 2018, with greater inequality than in capitalist countries including Australia, Canada, France, Indonesia, Japan, and the UK. In short, China may not be identified as a socialist country in terms of economic equality.

State

Marx envisioned a future society that would be an association of free people. It was in the transition to socialism that the means of production were to be concentrated in the hands of the state, withering away in the transition to communism (Engels 2022). However, when communist parties have achieved victory, they have been confronted with military hostility from the capitalist world and economic blockades, the conditions for the state to wither away have not been met.

In considering the transition to socialism, Lenin (2022 Ch. V) proposes:

the expropriation of the capitalists, the conversion of all citizens into workers and other employees of one huge “syndicate” – the whole state – and the complete subordination of the entire work of this syndicate to a genuinely democratic state, the state of the Soviets of Workers' and Soldiers' Deputies.

In practice, the state was both the organiser of the society and the central planner of the economy. Despite Lenin's notions of democracy, this is a hierarchical system, with the

state representing the most fundamental public interest, and a proper democratic process such as majority rule and freedom of public opinion absent. The literature also indicates that the state elites that emerged were divorced from the masses and manipulated public power to serve private interests (see Nove 1975, 620). Intuitively, the state syndicate contradicts with the sense of “authentic human happiness and the genuine freedom” inherent in Marx, but the reality of the socialist economy does create opportunities for the abuse of power. It also legitimises the collective taking part of individuals’ product to serve as social product, which causes intra-class controversies, though between-class conflicts are eliminated. For example, the controversy over the relative weight attributed to consumption versus investment arises when the state aims to accelerate growth while peasants/workers want more consumption. Sometimes these disputes could be tense. Kornai (2007, 163–170) argued that with soft budget constraints, bureaucrats’ investment hunger caused the neglect, sacrifice, and postponement of consumption. Without immediate responsibility for the results, bureaucrats are motivated to expand production, sometimes through ignoring and distorting the information transmitted to colleagues doing the planning. The central planner may adjust supply and demand but this adjustment may not come in due time, particularly when local bureaucrats have an incentive to control information that delays immediate adjustments to planning.

If the state syndicate and a withering away of the state fail, what would be the desirable way to organise the state? On the one hand, democracy allows unequal individuals to influence collective decisions unequally (Przeworski 2010, 92). On the other hand, there may be a contradiction between nurturing collective capabilities and minimising the state. There is no immediate answer as to what a socialist state should look like in a market context. The Chinese state has retreated from many aspects of social life since the reform era, but the state continues to play a large role in the social economy. Yet the China model of a big state is different from Marx’s vision of free people’s association. To better understand the nature of the Chinese state, further analysis is conducted in the following section.

To sum up this section, in terms of individuals’ possession of the means of subsistence, China has achieved near full coverage of the social security system, and the rural household responsibility system grants peasants usufruct rights over the contracted land. Yet there is a high level of inequality in income distribution and social welfare benefits, and there is no institutional mechanism that allows individuals to access proceeds from SOEs, and hence China fails to meet the criteria for socialism. Moreover, a big state is not a necessary feature of socialism, so that the state’s capacity to control the commanding heights or the intention to shape the economy do not constitute material evidence for China being a socialist country. SOEs in China are considered a manifestation of state capitalism rather than of socialism since they do not directly distribute dividends among citizens.

Will China Become Socialist?

Some scholars view contemporary China as representing an intermediate form between capitalism and socialism (see, for example, Wan 2018). A more common narrative is that the primary stage of socialism represents an initial form of socialism, and hence China has already been a socialist country since the socialist transformation in the 1950s. The main task in the primary stage of socialism, it is argued, is to build a self-sustaining production dynamic through establishing a market economy before it realises communism (Gong 2017; Wang and Zhang 2021). This temporary “deviation” into a market economy

is justified by the realisation of communism at some point in the future. However, as discussed below, this sharp turn in China's trajectory to communism is unlikely, considering the motivations of the CCP as the ruling party as well as the power dynamics of several social forces.

Arising from the ashes of civil war, the institutional structure of the Communist Party and its military apparatus developed for war and national struggle. The party developed to preserve its own existence rather than for strictly socialist pursuits. Writing of the Soviet Union, Mandel (1978) discusses the ossification of a bureaucratic stratum and that the country remained stuck on the road to socialism. If the state is stuck in the transition phase, the means of production centralised by the state in the name of the whole society would be continuously under the control of the Communist Party elites. As Westra (2020, 184) questions:

And once [wealth is] amassed, as party elites effectively become capitalists, do socialists really believe these elites will divest themselves of their holdings at some indeterminate time in the future to redistribute wealth and take their place as members of the common socialist proletariat in the effectively classless society Marx envisioned?

Therefore, one key condition for the state taking possession of the means of production in the name of the whole society is complete democracy (Lenin 2022). However, since Lenin, ruling communist parties have become a self-sufficient and hierarchical system that lacks checks and balances and excludes political competition. It controls the commanding heights of the economy through state capitalism, and with this economic capacity the Communist Party does not rely on any social classes, politically or economically.

The socialist experiments in the Soviet Union and its associated Communist bloc resulted in a loss of faith in socialism for many people as they came to equate socialism with the planned economy and state syndicate. For its part, the CCP confronted challenges from capitalism including economic affluence that glorifies capitalism's successes and political competition as the hallmark of democracy. Confronting these challenges, the CCP links the legitimacy of its rule with the delivery of prosperity for the masses. In this sense, maintaining rapid economic growth and sharing the fruits of growth with all citizens is as important as maintaining the party's rule. It is akin to bribing the people by pushing forward economic liberation so that the party can bypass political reform. The masses "buy in" because democracy is not presented as a guarantee of economic prosperity. Paraphrasing Przeworski (2010, 109), they face three possibilities: first, political participation and economic prosperity; second, political participation but being on the losing side, with economic prosperity not realised; and third, economic prosperity without political participation. The second and the third possibilities are ambivalent for many people, though the first possibility is likely regarded as superior to the second and the third by a majority. With uncertainties about the alternative future and satisfaction regarding rapidly improving living standards, the motivation to change the status quo is not strong.

The situation of the CCP may be summarised as follows: (i) the state does not want to relaunch any socialist construction project, because a robust private sector is deemed crucial to the booming economy; (ii) the state is expected to mitigate class conflicts by promoting economic growth and improving people's living standards, as the ideal of "common prosperity" which has been interpreted as "the rich will be able to remain rich, but the poor will not continue to be poor" (Dunford 2022, 50), because escalating class conflicts will jeopardise social stability and party-state legitimacy; and (iii) political competition is not welcome, though political participation is encouraged (see Stromseth, Malesky, and Gueorguiev 2017). In this context, while some bureaucrats may ally with capitalists for bribes, the state has no intention to share power with private capitalists,

and capitalists as a class remain vulnerable, especially when dealing in corrupt relationships with some bureaucrats. For instance, compared with getting bribes, attacking capitalists is not only lauded by the masses, but also the government can collect significant revenues from penalties for “illegal income.”⁶

Reinvigorating a socialist project faces other obstacles. During the reform era, as income gaps widened, self-identified radical leftists, particularly some Communist Party veterans, fiercely inveighed against corruption, proposing to return to the Mao era, relaunching the Cultural Revolution and its attacks on venal bureaucrats (see Ma 2006). However, that period left people with lasting pain; the fear of losing today’s property, lifestyles, and economic freedom means such proposals are repellent for many people. Moreover, such proposals do not address how improvements can be made on the socialist experiment with the planned economy in the pre-reform era.

Meanwhile, what liberal reformers call for is economic freedom and a minimal state; the telos of reform is to create “perfect” markets without arbitrary state intervention (see Wu 2013). The perspective mirrors modernisation perspectives that economic development and the growth of the private sector can result in a social consensus for a liberal agenda.

However, contemporary Chinese society is now increasingly divided into classes. Class conflicts escalate, and this manifests in changing attitudes towards capitalists. For instance, internet tycoon Jack Ma, who was once widely admired as a successful entrepreneur and ambitious role model for young people, now faces animosity from the masses, particularly on social media, when people realise that they will never have a chance to climb the class ladder. When Ma declared that people should be happy to have an “opportunity” to work from 9 am to 9 pm every day and six days a week, one result was the cult of “lying flat” which was a protest against such capitalist boasting (*BBC News*, February 16, 2022). The alliance between private capital and the masses that was forged through reform has been broken, which has been viewed by the authorities as an opportunity to strengthen party-state control and take back what had earlier been conceded to the private sector.

The possible outcome of this political and economic realignment may be the augmentation of the state sector and stronger state control. There is a narrative that making SOEs stronger, more competitive, and larger is in line with the fundamental interests of the people, as SOEs help to address the inherent deficiencies of the market economy. For example, as Han and Ge (2018) suggest, SOEs operating in public utilities can lower the prices of essential goods for low-income individuals. Moreover, as SOEs are nominally owned by people, the development of SOEs theoretically promotes fairness and improves income distribution. In addition, attacking big private capital strengthens the state’s control. This means, in a context where the party-state is strengthening its control over the society, state capitalism is gaining momentum as radical leftists and liberal reformers are losing support.

Where Is China Now?

From an economic perspective, the Chinese economy meets the condition for a capitalist economy. While fragmented small markets that existed in many historical circumstances involving interpersonal exchanges and other economic factors do not make it capitalism. It is society-wide markets that weave economic forms such as profits, wages, money, and so forth into a system that make capitalist economies (Westra 2020, 187). Nor can it be said that a market economy with the prevalence of a capitalist mode of production and

commodification of labour qualifies as socialism. Despite this, China has political rulers who identify China as a “socialist state” and a large state sector controlling the commanding heights of the economy, while the private sector seems restrained and politically timid. In this section, two questions are investigated: first, what is the nature of the Chinese state, capitalist, non-capitalist, or non-socialist? Second, it asks what impacts the Chinese state has for capitalism?

To investigate the first question regarding the nature of the state, it is necessary to start from the economic resources controlled by the state or the state sector and track the distribution of these economic resources. China had experienced the planned economy when the state possessed productive instruments and acted as the surrogate of all citizens. Under market-oriented reform, the natural objects such as land and mines are controlled by the state, priced on markets, and the governments collect massive premiums from selling these use rights to firms and individuals.⁷ Public properties such as SOEs are also repositioned in the market context. Naughton (2017, 7) indicates that SOE profits and the land premiums together accounted for 9.5% of GDP in 2015, while Zhang (2019, 10) estimates that SOEs contributed 23–28% of GDP and 5–16% of total employment in 2017.

By controlling natural resources and SOEs, the Chinese state still controls a big share of the economy as it has transformed into a market economy. But what does this mean? First, Chinese citizens’ ownership over natural resources is nominal (or perhaps even non-existent) because people must pay for using certain natural resources. The pricing of the use rights of natural objects such as land and mines and transactions of these titles over markets are evidence for their commodification and the existence of capitalism. If we consider that Marx (1991, 911) refuted individuals’ and nations’ ownership of the earth, which was entirely created by the relations of production and viewed natural objects not as the product of human labour, which had no exchange value but a use value (Marx 1990, 131). The state, by seizing the profit from trading natural objects, acts as a rentier. Second, since Chinese citizens cannot directly access the proceeds of SOEs, the question arises regarding the status of SOEs. Are they public property or the party-state’s assets? It is reasonable to consider SOEs as the party-state’s assets because it is the party-state who holds the owner’s rights including claim over residuals, decision-making authority, control over assets, and the ability to hold SOEs’ managers accountable for their actions. It might be argued that rents from these natural objects and SOE profits are devoted to building infrastructure and boosting development for the benefits of the people. For example, sub-national governments control the land premiums which are usually used to boost local economic performance. Similarly, SOEs that extract natural resources rents and monopoly rents shoulder social responsibilities. While taking on these responsibilities might be signs of benevolent governance, it does not mean that citizens who are recipients of public service are the true owners of public property. In today’s circumstances, citizens remain the “nominal owners” of SOEs, because different arrangements could trigger a legitimacy crisis.

If we consider the Chinese state as the principal of SOEs and natural objects, and SOEs’ managers and bureaucrats as the agent, agency problems within Chinese SOEs share similarities with those found in private firms in the West such as profit retention and managerial expropriation including transfer pricing through related-party transactions and less direct personal benefits and consumption of perquisites (see Burrough and Helyar 1990; Shleifer and Vishny 1997). In Chinese SOEs, managers tend to reinvest the free cash rather than return it to shareholders – the state. The profit retention experiment that began with reforms and aimed at boosting SOE performance allowed free cash to be turned into investment funds within the SOEs. This was reinforced by the 1994 reform

when SOEs stopped remitting profits to the state and paid taxes only. In 2007 the state started trials to collect dividends from some SOEs.⁸ Even so, the SOEs collectively still pay a very small share of their profits to the state, in 2015 amounting to around 8.15% of total SOEs' profits (Jiao 2018, 100). Moreover, the dividends paid to the Ministry of Finance are returned to SOEs, often with additional funds.⁹ Given most SOEs providing public services are unprofitable, funds returned to SOEs are evenly distributed within the state sector, allowing unprofitable SOEs to share the rents generated by natural monopoly SOEs. In this context, SOEs play a mixed role of capitalist and rentier of natural monopolies, but as the state does not share SOEs' profits, the rents of natural monopolies are only shared within the state sector and thus cannot be redistributed for social use.

A second issue regarding the state's control of the economy as it has transformed into a market economy relates to officials being more likely to deploy public resources to serve their political interests. Kornai (2007, 160–161) observed that a main imperative in planned economies was to catch up with developed countries and that this created an “investment hunger” and soft budget constraints. In China, this imperative has been abetted, since the 1980s, by the promotion system that linked sub-national bureaucrats' promotion with economic performance in their areas (Xu 2011, 1141). This arrangement motivates officials to deploy resources to fulfil performance targets.

Third, bureaucrats' control rights over SOEs create opportunities for managerial expropriation, particularly when citizens are excluded from supervision. Managerial expropriation occurs when some SOEs' leaders transformed SOE assets into private property through re-organisation and privatisation during the reform era. Fisman and Wang (2015) suggest corruption as a source of under-pricing of state asset sales. Cheng (2004) also documents rampant corruption such as graft, bribery, and embezzlement within SOEs, as decentralisation of managerial power enables SOEs' managers to exercise discretion over the ample economic resources they control.

Therefore, the analysis of the state and the state sector cannot support the argument of a Chinese socialist state, as “public properties” such as natural objects and SOEs are virtually the party-state's assets, and citizens have been deprived of nearly all the rights that constitute the ownership of these public properties. To be more specific, SOEs play a mixed role of capitalist and rentier, and as shown, the state apparatus barely shares in the profits of SOEs, and hence could not redistribute these for social use. The principal–agent problem between the state and individual bureaucrats and SOE managers is also noticeable in that the state assets have often been stolen or misused for personal gain.

Next, what impacts do the established social order – the state and state sector – have on capitalism in China? As the state and the state sector have repositioned themselves in the market context, their conflicts with nascent private capital do not represent the final struggle between socialism and capitalism. Instead, these are fights between the Communist Party elite and emerging social forces. On the one hand, the party elites want to fortify their political and economic positions, from which they can draw considerable economic benefits, as there is a concern that big capital that gathers both economic momentum and political influence may cause the communist elites to lose their dominant social-economic position. On the other hand, the relative closedness of the party system makes it hard to absorb the new social forces. The private sector's growth has been spectacular, but their political status does not match their economic power. The Communist Party is a self-sustaining system, which limits the opportunity for nascent private capital to penetrate the political arena. While the Communist Party system allows capitalists membership, it also absorbs members from all social strata. To access the top levels of power, however, is another matter. The party elite is a small, fixed circle, and the

promotion of professional bureaucrats is based on meeting and exceeding targets. Unlike in electoral politics where it is often seen that politicians seek support from capitalists and provide patronage in return, in China the state sector constitutes the economic foundations for the political administration, and the party-state is self-sufficient in the sense that the system can sustain itself without support from either the capitalist class or proletariat. The Chinese state has tended to not just regulate big private capital but has politically tamed it. Therefore, whereas private capital may be invited to participate in politics, it is on the condition that it will not threaten the ruling party's dominance, and any inappropriate political ambition will be restrained. The authorities have made it clear that private capital cannot control media, preventing big capital from directly influencing public opinion. The level of regulation for big private capital is also stringent. For example, Alibaba was issued an anti-trust fine amounting to 18.2 billion yuan (\$2.8 billion) (CNN, April 12, 2021), while Jack Ma's effective voting right in Ant Financial Service decreased from 53.46% to 6.2% (*Nikkei*, January 12, 2023; *The Guardian*, March 27, 2023).

The telos of state capitalism is not to dominate the whole economy by wresting capital from the private sector with their political supremacy. Li, Liu, and Wang (2015) argue that private businesses primarily concentrate on manufacturing and the services sector (the downstream industries) and are subject to fierce market competition while SOEs dominate energy and natural resource-related industries (the upstream industries), meaning that the private sector relies on SOEs to supply essential intermediate goods and energy resources. Although Chinese SOEs are considered less efficient than private enterprises, they have outperformed the latter since the beginning of the twenty-first century, which may be ascribed to SOEs extracting rents from the private sector. Even so, a robust private sector is important for the state sector, especially as the development of the private sector will increase the demand for the products of SOEs.

Furthermore, technocrats seek to expand production rather than maximise profit. In contrast, capitalists, who are generally seen as profit maximisers, often exert significant influence over state policies and support austerity policies. As Kalecki (1990, 351) pointed out, capitalists may be reluctant to increase investment for several reasons, including for the purpose of maintaining their social position as bosses. For example, the 2008 financial crisis saw financial capitalists in mature capitalist countries supporting austerity policies even after themselves being bailed out. Like Kalecki, Vercelli's (2014) explanation focuses on the primacy of political interest (such as diminishing competition and weakening labour) over economic interests (such as boosting aggregate demand). In China, the political weaknesses of capitalists led to this capitalist tendency of restraining investment being overwhelmed by the technocrats' investment hunger, thus fuelling the tendency of over-production (itself inherent in capitalism). The epidemics of over-production are resolved by the state increasing public consumption, exhausting excessive productive capacity but not diminishing the means of production. For example, China repeatedly implements expansionary policies reminiscent of Keynesianism, particularly in funding infrastructure investments where such construction is both an investment and a part of public consumption. So it is that China has built by far the longest high-speed rail network in the world but has also accumulated rail debts of nearly 5.91 trillion yuan, or around 5% of China's GDP (*Nikkei Asia*, July 6, 2022). While a neo-classical perspective would suggest this is responsible for "welfare losses," heterodox economists are likely to appreciate such investments.

The implications of the state and state capitalism for capitalism in China can be summarised. To maintain its dominant political and economic position, the party-state politically tames private capital and thus the latter exerts less influence on state policies than in the West. Technocrats seek to maximise production rather than profit, which may resist

some of capitalism's ills such as the need for a reserve army of labour. State capitalism does not aim to dominate the whole economy, as monopolising over upstream industries allows it to extract rents from downstream firms and individuals. Thus, maintaining a robust private sector is in line with the state's interests.

Conclusion

This article has investigated broad questions regarding socialism in China: What is China's current position? Is China socialist? Will China become socialist? To answer these broad questions, the article first proposed four defining principles of socialism, drawn from Marx: individuals' possession of the means of subsistence; entitlement to a share of the means of production held in common; equality; and the withering away of the state. It was found that China fails to meet these criteria.

The article also considered the nature of the Leninist party-state, finding it a hierarchical, self-sustained system that departed from the democracy envisioned by Marx. Only when there is complete democracy will bureaucratic elites cease abusing state power and taking possession of productive instruments as they do now. As China has transformed into a market economy, it has been seen that citizens – who have nominal ownership of natural resources and SOEs – must pay for use rights and cannot readily access SOEs' proceeds. It was found that the market mechanism means that the distribution/redistribution system is based in systems that are capitalist.

In discussing SOEs, it was found that most SOE profits are retained within these firms, the state barely shares the SOEs' profits, and thus cannot redistribute them for social uses. SOEs are thus more-or-less capitalist and rentier but also show features of managerial control. SOE and natural objects such as land and mines are virtually the party-state's assets. SOEs are also afflicted with agency problems as SOE managers tend to increase control rights and benefits by deploying SOE resources to serve political interests and through indirect and corrupt means of expropriation.

Finally, it was shown that the state and state sector have specific impacts on capitalism in China. For example, they tend to expand production beyond the optimal level, and restrain big private capital to protect its social-economic position. These are not signs of socialism, but of a type of capitalism with a party-state that has developed non-socialist pursuits and prepared to defend its position by all means.

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Notes

1. Though Mao Zedong was the first to propose this phrase in drafting the goal for developing rural co-operatives, Deng gave it a new meaning in the reform era by asserting that the core of socialism is to achieve common prosperity. For example, he stated: "to take the road of socialism is to gradually materialise common prosperity" (Deng 1993a, 373), and "socialism is not prosperity for a few and poverty for the majority" (Deng 1993b, 364).

2. Su (1998) argues that one logical interpretation of the slogan “the primary stage of socialism” is that China will return to a planned economy in the future. Pushing forward market-oriented reforms, the Chinese Communist Party (CCP) leaders feigned agreeing with such an interpretation to avoid attacks from radical leftists. Su considers that the CCP leaders have no real intention to return to a planned economy as they anticipate the date for entering communism is too remote – in hundreds of years – but the CCP is perpetually burdened by the promise they made, which creates a sense of obligation and responsibility regarding the commitment to return to a planned economy.
3. The idea of the state controlling land and vital industries originates from Lenin (2023): “our state capitalism differs from state capitalism in the literal sense of the term in that our proletarian state not only owns the land, but also all the vital branches of industry. To begin with, we have leased only a certain number of the small and medium plants, but all the rest remain in our hands.”
4. The *Decision of CPC Central Committee on Several Major Issues of Reform and Development of State-owned Enterprises* (CPCCC 1999) stipulates that as SOEs were restructured: “the proportion of the state-owned economy in the entire national economy will decline. As long as we adhere to the dominance of public ownership, maintain state control over the vital industries of the national economy, and strengthen the control and competitiveness of the state-owned economy, this decline will not affect the socialist nature of our country.”
5. Due to the rural population primarily earning income from the informal sector, where it is hard for the tax department to track individuals’ earnings, the pension system for rural residents allows people to select their desired level of payments and receive benefits accordingly. For example, the lowest pension contribution for rural residents was 100 yuan per year in 2009. In contrast, the pension system for urban employees is earnings-related, and the annual pension contributions vary from thousands to tens of thousands of yuan. The disparity in pension contributions between urban employees and rural residents is mirrored in the discrepancy of the pension benefits they receive.
6. Tong (2012) indicates that when Bo Xilai was the governor of Chongqing, he launched campaigns against organised crime, which implicated many capitalists. Once convicted of gang-related crimes, the state confiscates the property belonging to the firm and its boss. Due to the lack of transparency in judicial proceedings, it was thought that Bo Xilai falsely implicated innocent capitalists to expropriate their private property. Chongqing under the governance of Bo Xilai may be an extreme case, but it indicates the political vulnerability of capitalists in China.
7. The Constitution of the People’s Republic of China stipulates that “Minerals, water, forests, mountains, grasslands, wasteland, tidal flats and other natural resources are owned by the state, that is, owned by all the citizens; except forests and mountains, grassland, wasteland, and tidal flats that are owned by collectives.”
8. In 2007, SOEs were classified into three categories and paid dividends to the state at rates of 10%, 5%, or had them postponed to three years later or were exempted (see State Council 2007). In 2014, SOEs were reclassified into five categories and the dividend rates paid to the state were 25%, 20%, 15%, 10%, or exempted (see State Council 2014).
9. According to the Ministry of Finance (2021), the Central State-owned Capital Operation Budget estimated SOEs to have paid a dividend of 128.165 billion yuan to the state in 2021. In the same year, the central state capital operating expenditure for SOEs was 118.105 billion yuan, including a 0.02 billion transfer to the social security fund, 4.6 billion for dealing problems left by SOEs’ re-organisation, 76.402 billion yuan to inject back into SOEs, 10.02 billion yuan policy subsidies to SOEs, other expenditure of 16.883 billion, and a transfer of 10.152 billion to sub-national SOEs.

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