Western Fears and Criticisms of State Capitalism in China

[This is a slightly edited letter I sent to friends on Dec. 9, 2011. —S.H.]

Hi everybody,

There have been a large number of articles in the U.S. business press over the past few months relating to the role of the Chinese government in its economy, the role and importance of state-owned enterprises (SOEs), and so forth. These include articles in the *Economist*, *Business Week*, and the *New York Times.* (I'll mention a few specific examples later.)

To me the most interesting (and humorous) thing about these articles, taken as a group, is their logically contradictory nature. On the one hand they focus on how the Chinese government is not "playing fair", on how state-owned corporations have all sorts of advantages (including much better access to bank loans), on how they are able to rapidly expand production even while their profits remain quite low, and on and on. This is the fear aspect of the equation; the fear by private (and especially foreign) capitalists and their ideologists of the "unfair" advantages of state capitalism.

On the other hand, there is the critical focus, the ideological claims that China is suffering, or will soon or eventually suffer, because of all its state intervention in the economy. These claims are ideological because they are based on "free market" (laissez-faire) dogmas.

Still the contradictory claims here are startling: China's economy is advancing rapidly because of state promotion and participation in the economy, but China's economy is "at major risk" because of all the state intervention and participation in the economy!

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The question of the precise nature of the current Chinese economy is something that requires a lot more study and discussion, in my view. I don't doubt for a second that it is capitalism, but the question is just what kind of capitalism, exactly, or just what blend of different forms of capitalism?

A common presumption of many Marxist observers has been along these lines: Deng Xiaoping and his revisionist buddies transformed socialism into Soviet-style state capitalism, and then took two further steps: 1) Opening up China to the penetration of foreign capital, which resulted in massive investment in China by multi-national imperialist corporations (MNCs), and 2) Privatizing by far the greater part of the once state-owned enterprises.

There is of course no doubt that both of these things did happen on a major scale. But I don't think that's the whole story. It is possible to jump to many false conclusions based *simply* on those initial premises.

First, it has often been assumed that state-owned corporations no longer matter very much in China's economy. That is definitely false. Not only are they still very important, they are actually *gaining in importance* again! The U.S. Ambassador to China, Gary Locke, recently complained that "China seems to be embracing state capitalism more strongly each year rather than continuing to pursue economic reform goals." ["U.S. Troubled by Growing china Intervention in Trade, Locke Says", Bloomberg, 12/5/11.]

Similarly it has been assumed that most of the remaining SOEs would be privatized before too long. It is true that this did appear to be the inevitable trend for a while, but in recent years it no longer seems that way at all! That trend has been more or less reversed.

One way it has been reversed is through simply halting *most* further privatizations. An even more important way is how the government is pushing its SOEs to hugely expand their investment and production. Another way is through SOEs buying up some private companies. And, of course, overseas acquisitions by Chinese state-owned companies are growing very fast.

Yet another way is through more state investment in what are still nominally private companies. (Such as the massive investment of the Chinese Academy of Sciences in the Lenovo computer corporation. The 36% it now owns, together with other government influence, puts the Chinese government in overall control of that company, at least when it comes to the most important decisions.)

And, last but not least, there are the informal methods of government control (on either a national or local basis) of what are usually 100% privately-owned corporations. The fact is that few Chinese-owned companies can effectively resist government pressures to operate and invest in ways the government wants them to do.

Another assumption has been that the foreign MNCs operating in China have either already gained effective control of the Chinese economy as a whole, or that they eventually will. It is certainly true that these MNCs have a large share of both the Chinese export market (maybe even 50%) and also the Chinese local market. (It is estimated that companies which were either wholly or partially foreign owned produced over 20% of China's total GDP circa 2009.) In some limited spheres they completely dominate locally-owned Chinese companies. And it is true that for some time after the "opening up" the trend was for continually greater influence and control of the Chinese economy by MNCs.

However, what is the trend now? The new trend is once again to gradually reverse that old trend! Certainly in the local Chinese market locally-owned corporations are making noticeable headway against the MNCs now, and I think this is also true even in the export markets (though less strongly so far). And this is so even despite the continuing new massive foreign MNC investment in China. I predict this new trend will strongly strengthen in coming years.

Moreover, the degree of foreign domination of the Chinese economy was always exaggerated in reality. Included, for example, is "foreign" investment from Chinese companies in Hong Kong, which is even now still counted as foreign investment even though Hong Kong is now actually part of China again.

When we think of foreign imperialist economic domination of a country we think mostly of MNCs from the U.S., Japan, Britain, Germany, etc. But actually a lot of this foreign investment in China (even beyond that from Hong Kong) is really from Taiwan, or Chinese investors from Singapore, etc. How much difference, really, does it make if a corporation in China is owned locally or owned by people in Taiwan, for example?

We should not exaggerate the degree of foreign economic penetration of China, and definitely not conclude that the penetration that does exist demonstrates foreign imperialist *domination* of the Chinese economy.

I should also emphasize that recognition of the considerable aspects of state capitalism which still exist in China by no stretch of the imagination should be confused with socialism! And in particular, there is no such thing as socialism when the bourgeoisie rules society in its own class interests.

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One of the articles I'm referring to appeared in yesterday's *New York Times*:

Entrepreneur's Rival in China: The State

http://www.nytimes.com/2011/12/08/business/an-entrepeneurs-rival-in-china-the-state.html?nl=todaysheadlines&emc=tha2

One of the themes in this article is that state-owned companies are being favored over private companies not only in the access to financial capital, but also apparently in the law courts. The article even claims (or implies) that the Chinese government was a party to the theft of very valuable intellectual property (biochemical production methods) from a privately-owned Chinese company.

I was more interested in the general point: "In this counterfeit-friendly nation, employees run off with manufacturing designs almost daily." I really don't think Western MNCs operating in China will be much more successful in keeping advanced production methods away from either local private companies or SOEs.

The article also mentions that "the usurping of private enterprise has become so evident that the Chinese have given it a nickname: *quojin mintui*. That roughly translates as 'while the state advances, the privates retreat.'"

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Another couple articles on this same overall theme appeared in the *Economist* on Sept. 3, 2011. One was entitled : "Privatisation in China: Capitalism Confined: Chinese companies, like companies everywhere, do best when they are privately run. In China, however, the state is never far away." [Available at: http://www.economist.com/node/21528262]

This article emphasizes that one of the main reasons for the major privatization campaign in China was to break the "iron rice bowl", the old guarantees and feelings by Chinese workers at state industries that their companies and their country actually belonged to *them*. It says that from 1995 to 2001 "the number of jobs in the urban state sector fell by 36 million—or from 59% to 32% of total urban employment."

Moreover, the article points out that this privatization campaign never really ended (though it drastically slowed down). But what it also brings out is that these privatized companies are not really totally privatized in the Western sense; the state really retains a very considerable degree of control over them. A common theme is nominally private management, but with very strong party influence and pressure at times.

The accompanying article complains that there is a "hidden cost to state capitalism". How nice it is for the British bourgeoisie to be so concerned about improving the efficiency of their competitors! Of course that is not really their concern at all. They *say* Chinese government intervention in the economy, especially in the form of outright state capitalism, is not in the interests of the Chinese economy. What they really mean is that it is not in the interests of foreign capitalists like themselves.

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In addition to all this attention and concern in the West to the issue of state capitalism in China, there is the deeper concern which underlies it. This was brought out in an article in *Bloomberg Businessweek* in the Oct. 17-23, 2011 issue, entitled "The Case for Second Place", about how China will very soon overtake the U.S. as the world's largest economy. The article tries to sooth American feelings about this by pointing out that on a per capita basis Americans will remain richer than the Chinese for a long time to come.

And yet, it is hard not to see the frantic worries when they point out things such as "Over the past 10 years, the annual real growth of China's gross domestic product averaged 10.5 percent, compared with 1.7 percent in the U.S." and that "America's days as top dog of global output are numbered, at best."

The fact is that capitalist China—still considerably *state capitalist*, though also blended with Western-style monopoly capitalism and foreign MNC investment—is still on the rise, while the U.S., Europe, and Japan are in relative decline. This is the real reason for all the bitching and moaning we hear in the Western bourgeois media about China, state capitalism, and China's unwillingness to "play fair".

There will of course be lots of secondary ups and downs in this great change in the world. Right now, for example, the U.S. is in a very short and shallow uptick, while China's economy has weakened a bit over the past months. But the overall trend remains the same; even in this long period of overall crisis, and even when it turns much worse, the U.S. is in a major economic decline, and China is continuing to rapidly rise.

Scott