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China and Real-world Capitalism

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Theme

Capitalism is a world-predominant system, so the interaction between a national political economy and world capitalism could reveal the nature of the former entity.

This must be especially true for China, which is a political-economic entity significant enough to have systematic interactions with world capitalism.

The term “capitalism” is not merely a label.

It signifies a range of well-developed theories concerning the dynamics (“laws of motion”) of the economies and societies recognized as capitalist.

China's era of market reform and opening-up has coincided with neoliberal globalization on the world scale.

Yet, its transformation has been a process of submission-cum-resistance with respect to globalization.

This has resulted in the formation of its own model that transcends neoliberal capitalism.

The transcendence provides pointers for conceptualizing Chinese political economy, in the perspective of the sufficiency or otherwise of its potentials for constructing socialism that is historically viable

Economic and Social Development in the World Context

Any assessment of China's transformation ought to be based on its actual performance of economic and social development, in terms of systematic international comparison.

Compared to the previous decades, economic growth accelerates in China in the era of globalization – in contrast to the slowdown in the rest of the Global South.

There is a tendency of convergence in income levels between China and the Capitalist Core, as opposed to the tendency of divergence experienced by the rest of the Global South.

The dismal performance of world development outside China, amid the general “move to the market”, warns against mystifying the dynamism of capitalism in our times.

Table 1. Growth of per-capita real GDP (average annual rate)

	1960-1980	1980-2024
China	3.0%	8.0%
Capitalist Core	3.2%	1.6%
World excluding China and Capitalist Core	3.0%	1.3%
World excluding Capitalist Core	3.1%	2.5%
Sources: World Bank, <i>World Development Indicators</i> , accessed on 8 February 2026.		
Notes: Capitalist core = USA + Japan + Germany + UK + France + Italy + Canada + Australia + Belgium + Netherlands + Sweden + Switzerland.		

Life Expectancy at Birth is possibly the most inclusive indicator of social development, as it is likely to capture all the economic, environmental, political, and social influences on the well-being of the humanity.

China's performance in this regard is at any rate respectable by international comparison.

What accounted for the economic growth performance, which provided the foundation for social development?

Whatever the fundamental causes, the immediate cause is sufficiently clear: productive investment. Investment is both a component of aggregate demand in the short term and a source of productive capacity in the long term.

Table 2. Gross Capital Formation (as ratio to GDP, simple average across the period)

	1970-1980	1981-2024
China	34%	40%
Capitalist Core	26%	23%
World excluding China and Capitalist Core	26%	25%
World excluding Capitalist Core	26%	28%
Sources: World Bank, <i>World Development Indicators</i> , accessed on 8 February 2026.		
Notes: Capitalist core = USA + Japan + Germany + UK + France + Italy + Canada + Australia + Belgium + Netherlands + Sweden + Switzerland.		

The developmental function of a particular political-economic system rests, ultimately, on its capability of mobilizing and productively utilizing the resources of the society.

In this regard, there is a clear distinction between China and the rest of the world. China's has had a high investment rate in the main part of the era of globalization. In contrast, the rest of Global South as well as the advanced capitalist bloc have experienced investment stagnation.

This contrast calls for inquiries into the nature of Chinese political economy and that of the broader world. What is the nature of globalization? How has Chinese political economy evolved in the face of the prevailing global trends?

Policy Doctrines and Systematic Dynamics of Neoliberal Globalization

The economic policy doctrines of the Washington Consensus: market and trade liberalization, privatization of public assets and services, and financial liberalization especially concerning the de-regulation of cross-broader capital flows.

The associated policies have been pervasively applied across the world.

The essence of these doctrines is market fundamentalism. Its promise is the “natural path of development.

The conspicuous contradiction between the reality and the promise requires inquiries into the systematic dynamics of world development under globalization.

The policy doctrines combine to make all economic resources becoming increasingly financially tradable in the markets. This provides maximum freedom for capital, to move around in pursuit of ever higher rates of returns.

Financialization, where speculative activities increasingly dominates economic decision-making, has become the systematic “law of motion” of world capitalism.

Theoretically, financialization necessarily leads to squeezing on productive, long-term investment. This squeezing also tends to worsen income distribution between capital and labour, thereby depressing consumption growth.

The logic of financialization, in short, is to make itself intrinsically unsustainable..

In reality, financialization has been sustained until the outbreak of systemic crises from 2008.

The key to resolving this paradox is “accumulation by dispossession”: capital accumulation under neoliberalism is mainly based on the absorption into the world market of productive resources that have been previously outside of it.

Central to the process is incorporating workers in the developing world into the system.

This entails capital chasing “cheap labour” around the world.

The “Lewis Model on the world scale” arises as, via neoliberalization, labour supply in the world market expands faster than labour demand.

The profits created and extracted via “accumulation by dispossession” serve to sustain financialization. But the implications for world development tend to be negative.

In times of expanding labour absorption, the unequal power between capital and labour entails the transfer of economic surplus from the South to the North.

This implies a tendency to induce the developing economies involved to fall into a “low technology, low wage” trap.

In times of crises, the relevant developing economies tend to bear the brunt of the systemic shocks arising from demand deficiency. Predatory financial activities would then come to play in the developing economies that have been engulfed into the crises.

Chinese Transformation versus the Global-Systematic Dynamics

First, consider systematic attributes. The submission-cum-resistance character of China's transformation is clearly evident in the continuous existence of a mixed economy.

Submission:

There is the transition from a planned economy with pervasive public ownership in the early 1980s, to a market economy with mainly private ownership today.

Most fundamental is the marketization of labour employment. The periodic eruptions of speculative bubbles, and the emergence of symptoms of financialization, are the culmination of the marketization process.

Resistance:

State ownership has remained critically important.

As of 2018, state-owned enterprises (SOEs) accounted for 56% of the total assets of all business entities.

The share is likely to have exceeded 60% by 2020 – the total assets owned by SOEs increased by 22% during these two years whilst the economy grew by only 8.5%.

And there are state controls over the “commanding heights” of the economy.

As of 2018, financial SOEs accounted for 82% of the total assets of the financial sector. The assets of financial SOEs increased by 22% in the two years that followed.

In a world of financialization, the importance of controlling the financial sector of the economy cannot be exaggerated.

Now, turn to systematic dynamics.

Expectation: China's economic development in the reform era is likely to have been mainly based on the “utilization” of labour, following the logic of neoliberal globalization.

Three possible avenues through which labour “utilization” can contribute to economic growth: employment growth, rural-to-urban labour transfer, and increases in work intensity.

Together, contribution of labour “utilization” to economic growth via the three avenues is estimated to be at most 45% for the period 1978-2020.

Whereas the combined contribution amounts to an average of 56% in the period 1978-2000, it decreases to 32% in the next two decades.

Table 3. Estimates of the Contributions of Labour to Economic Growth

	(a)	(b)	(c)	(a)+(b)+(c)
	Employment growth	Labour Transfer	Work Intensity	
1978-2020	13%	20%	12%	45%
1978-2000	21%	24%	11%	56%
2000-2020	4%	15%	13%	32%

Sources: China National Bureau of Statistics, *China Statistical Yearbook*, various issues.

Note: These numbers indicate the weights of employment growth, the effect of rural-to-urban labour transfer, and the effect of increases in work intensity, in GDP growth.

GDP growth and employment growth data are official. The effects of labour transfer and increases in work intensity are estimates.

For (b), the effect of labour transfer = $[(V_m/L_m) - (V_a/L_a)] * dL_m/dV_t$, where V = value-added, L = number of employed workers, a = primary sector, m = secondary and tertiary sectors, t = economy total, and d denotes the difference between current year and the previous year. It is assumed that all the increases in labour employment in the secondary and tertiary sectors are labour transfer from the primary sector.

For (c), the effect of increases in work intensity = the ratio of “average annual growth in working hours” to “average annual GDP growth”, where the assumption is that the working hours of an average worker increased by 25% both in the period 1978-2000 and 2000-2020.

Public ownership predominated the economy in the first period. The reality thus appeared to be fundamentally deviating from neoliberalism in the institutional dimension.

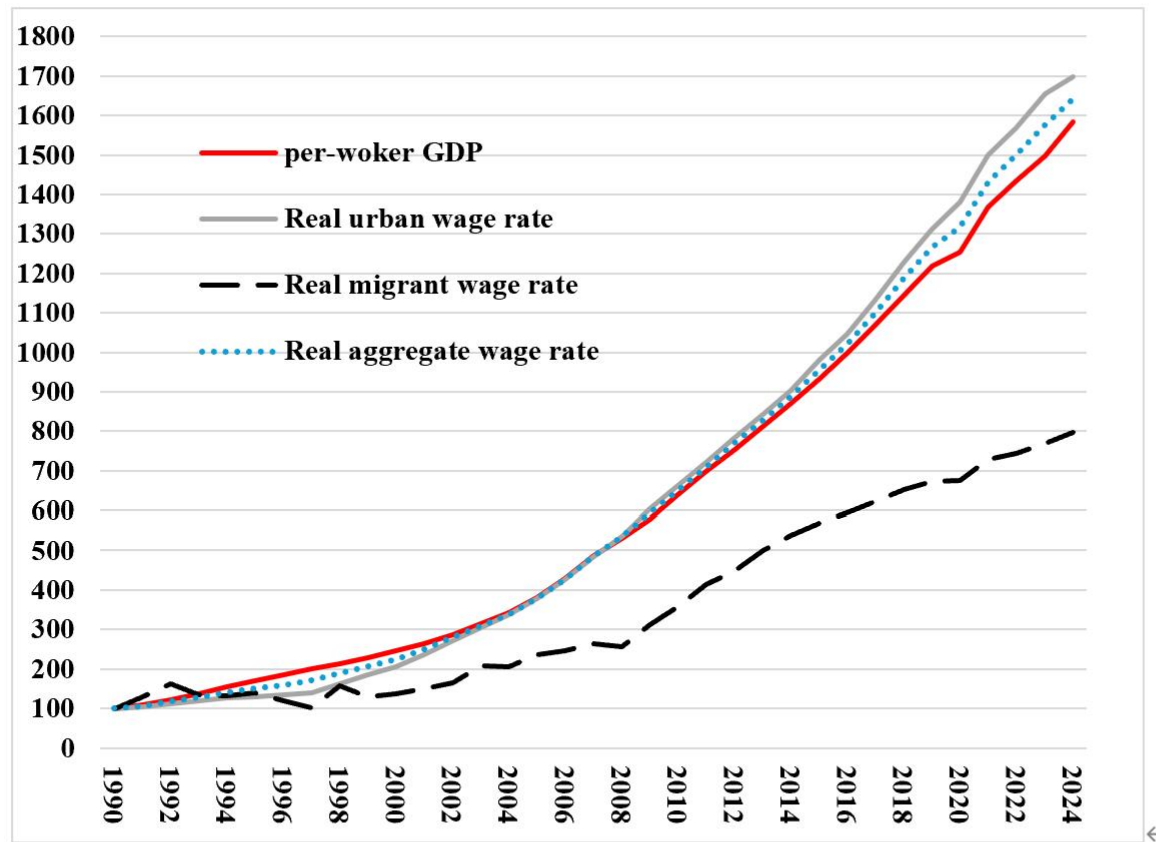
After 2000, labour inputs became a minor factor in terms of contribution to economic growth. The development path progressively turned to a market-defying, capital-deepening one. At the institutional level, there was no sign of further fundamental changes in the direction of neoliberalism.

In the main part of the reform era, the real wage rate has grown at a pace that is comparable to labour productivity. This is in sharp contrast to the rest of the world.

The observation reinforces the judgement that Chinese economic growth has not be mainly based on low labour cost.

It also implies that the fruit of productivity growth has benefited labour.

Figure 1. Indices of Per-worker GDP and Real Wage Rates (1990 = 100)



Sources: Per-worker GDP and urban wage rate data from *China Statistical Yearbook*, various issues; wage rate data for migrant workers from *Report on Monitoring and Surveying Migrant Workers*, various issues, and Lu Feng (2012) “Wage rate trends of China’s migrant workers, 1979-2010”, *Zhongguo Shehui Kexue* (Social Sciences in China), 2012, no.7: 47-67.

Note: → Real aggregate wage rate is estimated as a simple average of real urban wage rate and real migrant wage rate.

Concluding Remarks

Both in terms of its systematic attributes and dynamics, neoliberalization has been important but not all-important in China's economic transformation.

Submission to neoliberalism seemed to somehow prevail over resistance in the first half of the reform era. Entering the second half of the reform era, resistance prevailed over submission.

The rivalry between submission and resistance to neoliberalism has gradually resulted in the formation of a distinctive Chinese economic model.

This is a mixed system gearing to the promotion of productive investment. It is distinctive in the face of a world economy that is increasingly financialized and speculation-oriented

How about China and capitalism?

If China were indeed capitalist, how could its record of economic and social development in the reform era be explained?

Does it imply that capitalism today is still capable of delivering development on a global-systemic scale – in contrast to what has actually happened worldwide outside China?

Arrighi once puts forth the provocative argument that Chinese political economy – and the broader world associated with China – is market economy, but not capitalism.

Losurdo even argues that Chinese political economy is not just non-capitalist but rather, in a fundamental sense, anti-capitalist.

The common vision is that, to properly interpret China's economic transformation, the unit of analysis ought to be capitalism as a world system rather than as a national model.

If world capitalism is indeed all-pervasive and all-powerful, it would be a formidable task for a society such as China's to pursue anything that deviates fundamentally from capitalism.

Put another way, “to be capitalist, socialist, or anything else” might not be simply a matter that a society is free to choose.

Much depends on the said interaction, of which the outcome is the necessary foundation of any sensible judgement on the nature of Chinese political economy.

The transcendence of actually-existing capitalism provides important pointers for conceptualizing China's political economy, in the direction of its potentials for constructing socialism that is historically viable.