

How Capitalism Works in China

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While China continues to develop capitalistic capacities, the party-state has increasingly tightened control of the economy and synchronized political and economic stratification – a tendency towards a centrally managed capitalism. Under centrally managed capitalism, the party-state commands the economy by controlling personnel, organizations, and capital in both political and economic arenas. This system is also undergoing an ideological transformation that will have profound implications for both China and world capitalism.

China today is a capitalist state that, however, exhibits two relatively unique features not usually identified with capitalism, namely, the state itself acts as a capitalist, and economic activities are heavily embedded in social relations (guanxi). Each of these features, which are not unique to China, shows its full leverage and sustainability in a capitalistic system that is not transitioning to the liberal capitalism of the West, but may instead be establishing an alternative paradigm of capitalism to be emulated by other state-run capitalistic countries.

Three principal mechanisms make this politically commanded capitalism feasible: (i) the control of personnel and the incentive and mobility for political attainment; (ii) the control and rewards for organizations, including economic corporations; and (iii) the control of capital.

Reward and Control of Personnel

Party control of personnel. The Central Organization Department is one of the most powerful central party offices. Initially established in 1924 and directed by Mao Zedong himself, the department is in charge of recruiting, appointing, evaluating, promoting, and removing thousands of cadres in the party and government offices at the central, regional, and provincial-city levels. This department holds personnel files of cadres in all important organizations in the country, spanning the party, the government, state-controlled or state-affiliated corporations and enterprises, and judges, to mass media, universities, institutions, foundations, political consultative councils, and provincial and city leaders. Corporations are no exception. The party is embedded and occupies a central position in the organization. Geely, for example, is a private automobile corporation that recently acquired Volvo. Li Shufu, its founder and CEO, is also reported to be the party secretary of the company.

Synchronized incentives and mobility in the political and economic arenas. In China, top-tier stratifications in politics and economics are synchronized. Personnel move freely from the political hierarchy to the state-controlled and state-affiliated economic hierarchy and back, at the command of the party-state. Incentives are of both types: political positions or political capital, and material rewards or economic capital. Ultimately, attainment of political positions supersedes the significance of that in the state-controlled and state-affiliated economic hierarchy.

Reward and Control of Organizations

Control and stratification of organizations. Political control extends from personnel to the organization itself. Each state-owned, controlled, or affiliated organization carries a rank in the hierarchy of all public organizations. All state work units have ranks similar and parallel to military units. For example, a top national university carries the rank of a ‘division’ and a local university a ‘regiment’. To a lesser extent, calculable rankings apply to corporations as well, depending on the scope, size, and other criteria. Positions in corporations are likewise assigned ranks. Synchronization of organizations and positions makes it possible to transfer personnel across corporations with ease. For example, CEOs of banks and oil companies are regularly ‘rotated’, not only between organizations in the same sector but also across sectors.

Control of national champions and large corporations. The party-state manages a reward- and-control

system over large and important corporations in the economy. The party-state maintains strong control of the top-ranked corporations in most sectors. These corporations include state-owned (e.g., oil companies, banks, steel); state-controlled (e.g., most large automobile, telecommunication, and transportation industries); and corporations/enterprises that are affiliated with central and/or local governments through capital, personnel, and other relations.

Control of Capital and Trade

State control of economic capital. Another important mechanism of political control of the economic sphere is the party-state’s command of the capital. The party-state has direct control of vital economic capital as it controls all the major financial institutions. All major banks are under the control of a vice premier at the State Council.

Transferability of capital. With control of personnel and organizations, there is little wonder that the financial institutions cooperate fully with the directives of the party-state. When China responded to the world financial crisis in 2007–2008, it asked the banks to substantially increase its loans; the banks responded in unison and were much credited for the swift economic recovery.

Flexibility in investments. Capital transfer goes both ways. The state receives capital as the owner or shareholder from these corporations. In 2008, 26 percent of government revenues came from corporate taxes. It has the flexibility to increase or decrease its form of control or amount of shares as the state controls the board of directors and the top managers.

Coordination in diplomacy and foreign trade. The synchronization between the state and the state-owned, controlled, and affiliated enterprises and the national champions also operates well in foreign trade. Whenever and wherever the Chinese government signs a trade agreement with a foreign country in the developing world, China inevitably commits itself to providing infrastructure construction and natural resource (e.g., oil, gas, and other mines) explorations. Much of the work is then allocated to one or more Chinese enterprises without bidding. These enterprises selected by the Chinese government are inevitably state-owned, controlled, or affiliated or national champions.

The Future of Capitalism and Communism in China

An ideological transformation is underway. This transformation takes two steps. In the first step, the party-state leadership gradually decouples the justification of its dictatorial position from the Marxist ideology of communism and socialism, and couples with the maintenance of economic growth and social order. This shift relieves the party from the burden of proposing mechanisms by which China can move from the primary stage of socialism to the mature stage of socialism. The second step then allows the legitimacy of party rule to be based on indigenous Confucian ideology that emphasizes moral institutions, social relations, and eventually democracy. When fully realized, this transformation will have significant and substantive consequences for China and its position in world capitalism.

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