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Chinese Model of Capitalism: Chinese Way or Chinese Ways?

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Abstract

The paper deals with the contemporary Chinese capitalism. The author discusses key features of Chinese political economy in the context of profound transformation it currently undergoes. The author claims that the change is a dynamic process of adaptation of the Chinese state to external environment combined with a struggle of state institutions to retain political power and social legitimacy. As a result the transformation process may be described as multilinear, so instead of speaking about 'Chinese model of capitalism', it is more appropriate to use a plural form, and speak about 'Chinese models of capitalism'.

Capitalism is not just for capitalists
Deng Xiaoping

Introduction

After the 2008 financial crisis and the following recession, there is no shortage of articles and papers suggesting that the Chinese model of capitalism is more effective than the Western variations. Itis a fact that the Chinese economy did much better

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than the Western ones in the recession of 2008–2009. It has also proven to be fairly immune to the Asian Crisis in 1997. It has been developing at an unimaginable pace for over three decades. For many observers and commentators, all these facts are enough to state that Chinese political economy model is a new variation of capitalism with a potential to be spread in the developing world countries.

The aim of the paper is to explore the basic features of the Chinese political economy and to decide whether Middle Kingdom has developed its own distinctive variation of capitalism. Generally, it is often assumed that the Peoples' Republic of China has developed its own, specific capitalist model, significantly different from the Western types. However, after deeper analysis following such a line of argument becomes less easy. In reality, the social, economic and political processes taking place in China are far less organized and structured to put them under one clear theoretical category. After a closer look many questions arise. Is Chinese political economy really different and unique? Can we speak about single Chinese economic model or rather about many economic models competing with each other? Is the Chinese system more of a consistently managed meritocracy or of contradictory interests driven family business?

The main thesis of the article is that the political economy change we are witnessing in China is a dynamic process of adaptation of the Chinese state to external globalizing environment combined with a struggle of state institutions to retain political power and social legitimacy. The Chinese state and capitalist economy are undergoing a mutual transformation changing the nature of both of them. The outcome is inconsequent, sometimes even erratic and uncoordinated hybrid of the heritage of socialism, Chinese culture and Western institutions combining features of state, managerial and oligarchic variations of capitalism already known in the West.

Chinese Model or Models?

Scholars often find it useful to divide the capitalist economies into several broad categories. For the sake of efficient comparison the predominant features of many economies allow to put them under one of the labels.

1. *Entrepreneurial capitalism* basing on new enterprises dynamism, commercialization of innovations and free-market pushing of the production-possibility frontier.
2. *State capitalism* characterized by a large scale government involvement in generating growth. It often involves favoring specific industries and enterprises,

important from the standpoint of the state. These enterprises may take advantage of government credit allocation, direct subsidies, tax incentives, trade protection and other regulatory instruments meant to favor the state favorites. This approach is mainly represented by South-East Asian countries. The People's Republic of China (PRC) after 1978 is often perceived as its forefront example.

3. *Managerial capitalism* characterizes economies where large companies – 'national champions' – dominate production and employment. The companies exploit economies of scale and are able to mass-production of radical innovations. Examples of managerial capitalism may be found in Western Europe. Japan has also followed this path of development.
4. *Oligarchic* **capitalism** is characterized by high concentration of money and capital among the elites. This form disfavors the promotion of growth. The central goal of economic policy is accumulation of wealth by the governing elites. It is also characteristic for such economies to generate extreme inequalities in income. Such an approach dominates in the Arab Middle East and Africa, and also to a certain extent in Latin America (Kang 2012).

The character of government involvement in Chinese economy and reforms started by Deng Xiaoping make many observers assume that China falls into the category of state capitalism. In 1979, China opened up to the external world. The following three decades of introducing capitalist growth objectives into the Chinese economy while adhering to socialist ideology in the realm of PRC politics resulted in the development of a complex and unique model of political economy. At the first glance, China seems to have all of the features of a free market economy (stock exchange, independent central bank as well as commercialized and publicly listed state banks, membership in the World Trade Organization and impressive volumes of trade and foreign direct investment (FDI). However, after closer inspection liberalization has been introduced only where it strengthens the Party and the state. Chinese Communist Party has effectively directed the capitalist liberalization to protect the state's interests rather than to introduce market economy inside Middle Kingdom's borders.

From outside of China, many assume that the country phenomenal growth and increasing global power are based on a steady transition to capitalism. Another assumption that follows is that thirty years of reforms resulted in turning a state controlled economy into a market economy and it is only a matter of time until the politics follows. However, this gradualist view does not have to be right. In reality, it is not yet certain whether we are witnessing capitalist mode of thought overtaking the Chinese state centered politics or the Chinese state exploiting capitalist instruments to its own ends. Thus, it is worth to ask a very basic question concerning the very nature of the PRC political economy: is it really capitalist or still state owned and centrally planned?

There are many similarities between Chinese and Western economic systems that compel numerous observers and analysts to call it capitalist. They may be easily summarized under three general labels:

1. Both in Chinese and Western cases private sector seems to play the dominant role. If we include joint stock companies, almost 75% of the PRC's GDP is generated by non-state enterprises(for comparison of Chinese and Western sources see: Halper 2010; Zhu 2010).
2. In Chinese case, the share of government spending in GDP is relatively small – around 20%. This is lower even than in some Western countries, particularly European ones (Popov 2012). That should suggest that the drive of the PRC's economy comes mostly from the private sector, what is perceived as characteristic of a capitalist economy.
3. Another characteristic feature of a capitalist economy is relatively high income and wealth disparity. It is enough to say that in 2010 the Gini coefficient for China reached 45% and in 2011 – 50% (Kharon 2011).

Although the similarities above are often mentioned by politicians, journalists and analysts of international affairs, in the long run it is hard to prove their validity. In a broader perspective, they are also not particularly strong arguments. Actually, all of them imply that China is on an earlier stage of capitalism development as if it was the only path of development available to Middle Kingdom. Such an approach excludes other variations from the very beginning. The problem of formal comparison of similarities and differences of Chinese and Western economic models is that they refer more to certain indicators – like GDP levels, rather than to the nature of Chinese or Western economic approaches and practical differences between them. Basing on the percentage of GDP generated by the private sector, the amount of government spending and a superficial comparison of Chinese autocratic and Western democratic political economy also creates an opportunity for manipulation of the outcome of the comparison.

Some scholars have also voiced interesting doubts whether what is known about the PRC economy and political system is representative as far as the reality, or as far as the interests of the Chinese state apparatus is concerned. However, as the integration of Chinese and World economy continues (especially in context of Chinese WTO membership), it is less and less possible for the Chinese authorities to manage all the aspects of the PRC economic image (see: *Ten years of China in the WTO*, *Broken*

BRICs. Shades of grey; *China's economy and the WTO: All change*). Thus, another question arises: whether the image of China as a capitalist state is only what the Chinese authorities want the World to see, or is it also what the World wants to see as the outcome of the PRC transformation? One may paraphrase T.S. Kuhn's words: what scientists notice depends not only on what they see, but also on what they were taught to see (see Kuhn 1996: 139, 159). This problem refers not only to the outsiders' perceptions of China but also to the outsiders', mostly Westerners' perceptions of the Developing World.

First of all, after closer examination it is hard to defend the argument that 75% of Chinese GDP is generated by the private companies. The Privatization in China is not only a delicate issue – it is enough to say that private property became a constitutional right only in 2004 and the rights concerning productive assets still remain unclear]. On one hand many purely private companies were created despite the uncertainty of government's reaction and lacks of legal norms. On the other hand, state and local governments' experiments with privatization have created several categories of companies which may appear as private but their nature is far more complex. We may define four basic categories of these semi-privatized enterprises (methodology and the detailed analysis: Szamosszegi, Kyle 2011). It is worth to give them a closer look, as eventually they undermine the optimism about private character of the Chinese GDP increase.

- The First category comprises of large, in majority state controlled but otherwise commercialized enterprises. They usually enjoy monopoly or oligopoly status with minority shares sold to the public. The category includes large banks, transport or energy companies, most of which once were government ministries (China Mobile, China National Petroleum Corporation). They have been restructured, recapitalized and rebranded. In the process of commercialization some part of their equity, always a minority, was sold to the public and often traded on the stock market. Corporate structures (boards of directors, chief executives, etc.) were introduced. They became the symbols of China's growing industrial and economic power. Many observers claim that in practice they still are ministries rather than companies, though (ibidem). Although they have gained a lot of attention outside China, they account for perhaps 1% companies listed as private enterprises (Szamosszegi, Kyle 2011: 22).
- After a closer look, it is hard to fully agree that such companies are truly private. The proportion of shares available for the market is usually not more than 30%. They enjoy many privileges, like subsidized loans, from state-controlled banks. They are also monopolies or a part of oligopolies. Their activities are closely

overseen by the government which, more or less directly, appoints their senior managers and the Communist Party committee in each one of them. This group of enterprises provides the government with control of projects critical to the economy, especially involving large capital investments in high-speed railways, steel plants, telecommunications networks and ports. However, what is characteristic for these entities, their performance is hard to measure. This is caused not only by a large presence of the state in companies themselves but also in their business environment, what shields them from both competition and scrutiny. Although they are championed and praised by the state, more and more evidence indicates that their true economic effectiveness is less than satisfying. In some studies based on available data, their performance was no better than that of the companies still fully owned by the government (Gan, Guo, Xu 2012: 19).

- The second category involves joint ventures between private, often foreign companies, and Chinese enterprises backed by the state. Most often they involve foreign partner providing technology and know-how in exchange for market access (Shanghai Volkswagen, DHL-Sinotrans). As some examples in car-industry indicate, foreign companies are often pushed out of the market once their technological edge is gone[1]. This explains why most of Chinese joint-venture partners sooner or later begin to develop their own brands. Despite their access to Western technology, vast resources and political connections, just like in the earlier case, their performance is questionable and difficult to estimate. Like the first category they are not numerous. It is estimated that they do not exceed 2% of private companies (Szamosszegi, Kyle 2011: 22).
- The third category encompasses private enterprises with some state influence but no large scale state ownership. These companies are usually created in new markets where state-owned companies were earlier absent. However, they are encouraged by friendly government policies and protection from foreign competition (Huawei, Lenovo, Goldwind). The group is unique for two reasons: it comprises the most successful private companies and the half of the companies ended up in the hands of their managers. According to some studies, the management buyouts have done much better than the earlier mentioned modes of privatization (Gan, Guo, Xu 2012: 19). It is also worthy to note that the degree of government control declined in this group of companies. In only 1% of these companies the state had a shareholding

[1] Recently, for example, the government has pushed the Western companies to form 'indigenous brand' joint ventures with intellectual-property and export rights accessible for Chinese partners of joint-ventures.

of more than 20%. The state seems to give up ownership rights in pursuit of better economic results. Nevertheless, it does not mean that the state has resigned from control. It continues to exert influence through party representatives in party committees. In 2011 13% of all private business had some form of party cells. On the party's side the goal is to prove that a once-revolutionary party is still in touch with the masses. As the rapid social change resulted more and more frequently in outbreaks of unrest, the party branches are also to reinforce stability and party's control. On the private owners' side introducing a party branch into the company graces the local officialdom with a favour. Apart from the units, in growing number of provinces the government introduces a new form of a tax, usually 0.5% of payroll, to pay for private companies' party activities. The companies also remain under the state's shelter. They easily receive financial help, particularly at provincial level, where they operate. Such companies benefit from protection against foreign encroachment, enjoy research-and-development subsidies and subsidized purchases from the state customers. It should also be said that their leaders would not be able to keep their positions without the state's approval. As a rule, they are erected in new industries designated as innovative and strategic – renewable energy, medical equipment, drugs and technology. Nevertheless, they are not directly state-controlled and their bosses are not political appointees[2].

- The fourth and last group comprises fcompanies backed by publicly owned investment funds. The state plays the role of a venture capitalist: local governments invest in the companies directly or create funds that back the companies that are expected to bring both jobs and financial returns. This category encompasses enterprises with investors like foreign private-equity and venture-capital funds but also, and seems that more often, city and provincial governments (Digital China, Shanghai Environment Group). In cities and provinces hundreds of municipally backed funds have been created to invest in promising ventures. Some of these official investors have brought in foreign partners. Cities favor the companies providing working places. That affects acquisitions and disposals, where the factories are built and where the research takes place. It also serves as a source of lucrative posts for the children of the Party officials. As far as the performance is concerned, one has to note that little is disclosed about the activities of public funds backing up such enterprises. Although in the short run enterprises enjoying backing from public funds might be useful during the transformation period,

[2] It is also interesting that many of these enterprises, because of their listings on overseas markets, or foreign investors involvement, could technically be considered as foreign.

from economic point of view favorable attention from local governments may become a disadvantage for other private companies not enjoying such a protection in the long run.

After a closer look the variations of state involvement in formally private business show that Chinese government has not only kept the economic control over a substantial part of the private sector but also reflect how it found subtle ways to extend it. According to one of the Congressional reports, state-owned firms account for two-fifths of China's non-agricultural GDP. However, if we include the companies backed by the state in forms mentioned above, the figure rises to 50% at least[3]. This remains in striking contrast to official statements mentioned earlier, that 75% of GDP is generated by the private sector.

The most important process which is revealed after examining the state's involvement in private entrepreneurship is that the Chinese government has quietly obstructed rather than promoted market forces. By channeling cheap credit to chosen firms under state's influence, selectively enforcing rules and norms of business conduct and protecting local monopolies and trusts it has adapted capitalist instruments to the Chinese realities rather than itself to capitalism. It has even gone further than that by enforcing consolidation in some strategic industries. The assortment of large enterprises important for the success of export and investment oriented policy of Beijing is discreetly controlled by the state owned Assets Supervision and Administration Commission (SASAC)[4]. At the end of 2011 it was a shareholder controlling around 120 firms and $3.7 trillion in assets[5].

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[3] In last three years, fully private companies without government backing were less able to obtain credit and had to rely on China's shadow banking system. Further elaboration in: *Privatization in China*.

[4] Chinese authorities argue that state-owned companies are the instruments of modernization. For example, SASAC organizes management-training courses, benchmarks firms in its portfolio against international standards, and introduces codes of conduct. However, it is known that state companies must pursue not just market goals, but state's aims as well. This may include many things other than making profits. For example, after 1989 each time when natural energy resources prices had risen, the country's energy companies were not allowed to pass the costs to the consumers. More on this subject in: Curier, Dorraj (2011).

[5] Sometimes some firms are listed in foreign stock-exchanges as private, but remain under control of a company controlled by SASAC. This even caused an antitrust reaction from European Commission in case of Sinochem entering joint venture with a DSM, a Dutch firm. Not only Sinochem but also SASAC was scrutinized (*State Capitalism in China: Of Emperors and Kings*).

The consequences of state involvement in private business sketched above also undermine the thesis concerning a relatively small share of Chinese government spending in GDP. In regards to this issue the pattern is also complex and at the first moment might seem unclear. The most pressing problem concerning partly state owned companies' advantage in the Chinese economy is putting the burden of reforms aside as the economy showed its resilience to international financial crisis. This concerns the financial system in particular. Since 2005 and public listings in Hong Kong of China's three largest banks the energy and commitment to internal changes in China significantly fell. The brutal volatility of market-oriented systems weakened the push for a floating currency, independent pricing of debt and other securities. China's new political leaders, risen during years of strong growth, are more concerned with widening income disparities and the possibility of social unrest than with the threats of financial instability hidden in superficially private and effective system.

The State debt seems to be low by international standards – around 20% of GDP. However, if all sort of central and local government financial obligations are added up, some scholars argue that it would rise to 76% (extensively on this subject: Huang 2011). This is hard to judge in detail though. The information about liabilities is concealed or impossible to discern as there are no state controlled institutions establishing prices, for example, by bidding in the market. The obvious consequence is potentially inefficient capital allocation. However, the direst threat is that the Chinese economic system trades almost entirely with itself. Some analysts argue that if we recognize the nature and the scale of the state involvement in private entrepreneurship the whole Chinese business of providing, receiving and regulating money involves one state entity or another (*Indebted Dragon*). According to F. Howie and C. Walter, the Communist Party 'treats its banks as basic utilities that provide unlimited capital to the cherished state-owned enterprises. The result is a banking system that is allowed to carry huge amounts of non-performing loans and to delay the day of reckoning'[6].

[6] The Chinese banking system is centrally controlled by the government and has been majority funded by the people. Chinese households are substantial net savers and the most significant source of private capital for Chinese banks. These, in turn, provide unlimited capital to China's state-owned enterprises. In this way the country's financial risks are concentrated on the banks' balance sheets. Over three decades the banking system was already three times on the verge of bankruptcy, surviving only because the Party has provided its full support and introduced several rounds of bank re-organisations and restructurings. This creates a very unhealthy economic situation. For example, in 2006, three of the four state owned banks had to complete international IPOs to replenish capital and avoid bankruptcy. The state maintained overwhelming majority ownership in each of

This is particularly visible in case of the continual practice of hiding bad loans. Between 2006 and 2007, the Chinese government oversaw the transfer of $170 billion of problem loans to asset management companies (AMCs), effectively cleaning the balance sheets of state banks. In 2008, another $198 billion was transferred. As the bonds became due in 2009, the AMCs extended the bonds' tenors for further 10 years with government's full backing. This means that for the Chinese financial institutions the banks' environment in China may seem as almost risk free. In the reality of state-owned enterprises' domination on the internal market it means that they do not repay the loans; banks do not have to take into account the lack of loans' repayment and the Party takes responsibility and helps the banks and the state enterprises as the public scrutiny is not allowed because it is all state controlled.

This leads us to the last similarity between Chinese economic system and western capitalisms listed at the beginning of the paper – a relatively high income and wealth disparity. China now has one of the most unequal income distributions in the world. In 2011, the Gini coefficient for China reached 0.50 (0.46 for US). The measure method does not imply the same nature of the unrest, though.

The major reason of inequalities in case of China are the dismantled social welfare structures and minimal or no healthcare, unemployment insurance and other social services. The gaps result in growing social unrest. During last few years, coercion has been applied more and more frequently to suppress it. It is enough to note that in 2011 the financial cost of 'maintaining stability' was estimated to be higher than the size of the defence budget (*Unrest in China: a Dangerous Year*).

The lack of social protection is not the only reason of unrest. Without accountability, the Chinese state's ability to make swift decisions has been often exploited by the officials taking no account of side-effects like high economic and environmental costs, sometimes leading to irrational investment – like ghost cities in the South (*Prudence without a purpose. Misinvestment is a bigger problem than overinvestment*), waste of resources and environment's pollution. Lack of opposition

the four banks. At the end of 2008, China's government was facing a potential collapse of its export-driven economy. However, it was promptly aided by the very same banks after the Party officials' calls for lending oriented banking policy. By the end of 2009, the banks had lent more than U.S. $1 trillion and were suffering again from poor capital-adequacy levels. In April 2010, China's four largest banks had announced capital-raising schemes totaling U.S. $42 billion. This is an impressive amount for entities that have just faced IPOs in 2005 and 2006. Such contradictions highlight that both Chinese state and Chinese financial system require large inflow of capital at regular intervals. This might suggest an effect of bad loans and below-average lending standards (Walter, Howie 2011: 28).

outside of the Party apparatus has also created numerous opportunities for cronyism and nepotism. A combination of authoritarian politics and market economy institutions has produced a new social group – families of the privileged Party officials, so called princelings (*China's New Leaders: The Princelings are Coming*). The new technocratic elite, too young to remember the social and political reality of Mao's times, treats the state as private property with growing disregard for ideological legitimacy of the Party.

Of course, one may state that the problems mentioned above, concerning the true character of the Chinese private sources of GDP, the nature of government involvement in the economy and social problems accompanying the reforms for last thirty years are nothing more than variations known already in the history of development of capitalist systems in other countries of the world. If one emphasizes the differences between authoritarian regime in China and democracy in the West one should remember that most of the developed countries had experienced some form of authoritarian regime, sometimes even relatively not so long ago, like Spain, for example. If one points to China exercising various forms of control over the capital account, one should remember that such practices were not uncommon in most of the developing countries and were not uncommon in some historical periods in Europe, particularly after the First and the Second World War. If one criticizes the strongly export-oriented, mostly industrial and government backed policies, one should acknowledge that such policies also had precedent in other South-East Asian countries which are now perceived as capitalist (South Korea, Japan)[7]. Such a line of counterargument does not fit the Chinese case, though. Its weakness is that it overlooks the unique path of Chinese development and historical experience compared to other developing states both in South and Eastern Asia, and in the world as a whole.

To tackle this problem, a growing number of experts on Chinese studies points to a different, yet important variation of Chinese capitalism. Many of them argue that the most important feature of the Chinese model is the unequalled institutional capacity of the state (Popov 2012). According to a narrow definition, the institutional capacity of the state is the ability of the government to enforce laws and regulations. While many economists perceive it as a subjective criterion based on often biased indices, (corruption, rule of law, etc.) from the political scientists' point of view it is one of the most striking differences between the PRC and Western systems. If

[7] The same concerns often overused argument that Chinese government takes advantage of its vast foreign exchange reserves to undervalue the Yuan.

we treat the institutional capacity of the state as its ability to keep the monopoly on legal application of force (and crime rate as indicator of success at this field) and economic regulations (size of shadow economy as an indicator of that one), China will show very low indicators in the developing world compared to developed countries. Recognizing the state's institutional capacity as a major difference between China's and other variants of capitalism has important consequences often overseen by both economists and political scientists concentrated on the percentage of GDP generated by the private sector or other issues already mentioned.

Most commonly, it is assumed that the political and economic changes, that have brought the PRC to the current splendour, were initiated in 1978/79 by Deng Xiaoping. The Chinese economy was in ruins after the Great Leap Forward and the Cultural Revolution experiments. The reforms that ensued after Mao's death saved the state and the economy from collapsing. However, a question arises, if the capable public institutions were absent before 1949, where did the strength of the Chinese institutions, which are able to control and push forward the Chinese development miracle, after 1978 come from?

However politically incorrect this may sound, the pre-conditions for the Chinese success story of the last thirty years were created in the preceding period of the PRC history: 1949–1977. Before Mao's times China was a weak state, unable to defend itself from the foreign intrusions and torn by internal conflicts. The Xinghai revolution and the introduction of the republican regime found the country in ruins. The Kuomintang regime required foreign assistance to remain in control of just a part of its territory. However, after 1979 the PRC was able to undertake a heavy burden of challenging reforms. It is hard not to agree that without the success of Mao's reunification and strengthening of the state, the following reforms of Deng wouldn't be possible. As V. Popov puts it 'In fact, it would be no exaggeration at all to claim that without the achievements of Mao's regime, the market-type reforms of 1979 and beyond would never have produced the impressive results that they actually did. In this sense, economic liberalization in 1979 and beyond was only the last straw that broke the camel's back. The other ingredients, most importantly, strong institutions and human capital, had already been provided by the previous regime. Without these other ingredients, liberalization alone in different periods and different countries was never successful and sometimes counterproductive, like in Sub- Saharan Africa in the 1980s.' (ibidem).

The major flaw in most of the contemporary analyses of the state of Chinese economy is to oversee the fact that market type reforms in China after 1979 were possible because the PRC had a strong and efficient government and social institutions created and brutally controlled by the Chinese Communist Party (CCP). The Party control, exercised by the CCP cells, allowed the government to enforce its rules and regulations more efficiently than the last dynasty or the Kuomintang regime ever could. The tragedy of the Great Leap Forward and of the Cultural Revolution has not only decimated the Chinese population but also weakened traditional social networks that could become an alternative to the organisational Power of the state. For example, in similar case of the Soviet Union different parts of the state followed different paths of development creating a patchwork rather than an unanimous path of communist change. Under the Soviet rule this meant that under the surface of the communist regime traditional, local social networks not fully compliant with official rule were often hidden – like in Caucasus or in Central Asia (Collins 2006: 126). After 1989 they resurfaced showing the illusion of the Soviet Might and Power. In Chinese case the state was far more unified and forms of social organisation or communication alternative to state controlled ones were almost absent.

The above observations find confirmation in economic standards. Regardless of methods employed by the State Power, the crime rate in the Seventies in China was one of the lowest in the world (Eisnerm 2003: 83–142). The social system created under the Mao regime was actually a form of state feudalism. Although the social relationships upon which that system was built are no longer present, the framework of brutally efficient state institutions persisted till nowadays. The Chinese shadow economy was almost non-existent, eliminated by tight control of the government and of the Party. Transparency International estimated that corruption in China at the beginning of the 80s was one of the lowest in the developing countries (*Historical comparisons*). All these combined with rapidly rising literacy rate created fundaments of the reform period. The PRC in 1978 had abundance of state capacity and human capital. These created a space for economic liberalization and promotion of human capital, regardless how difficult may they be. At the break of the 70s and the 80s of the last century China met all the pre-conditions for growth except liberalization of the market.

After over thirty years of reforms, Chinese government seems to be able to preserve these advantages. According to many sources, it still enjoys majority support from the society. China's change has been led by a strong and pro-development state-apparatus basing on national consensus on modernization between the People and the Communist Power in unspoken exchange of overall political obedience for macroeconomic stability. In such circumstances, wide-ranging domestic reforms could have been pursued. The legitimacy of the CCP is based on progress and economic growth, which reached phenomenal levels in the last decades. Many observers suggest that it was possible by dint of turning the CCP into a true meritocracy basing promotion on skills and knowledge. Such enlightened authoritarian control seems not only to generate corruption but it also does not stifle creativity and innovation. Thus, it seems that 'the key to China's success is the leadership of the Communist Party, not the market economy. If the market economy were the fundamental element of progress, how can we explain the backwardness and poverty of countries like Pakistan or Haiti?' (Popov 2012).

Of course, the pre-conditions do not have to imply the success. The Chinese Communist Party was able to effectively manage the process of reforms mainly due to pragmatic rather than ideological approach. As Deng Xiaoping has put it: Chinese officials 'seek truth from facts', not from dogmas. Most of the reforms were based on local conditions and constant **experimentation**. All the most important changes in China first went through a process of trial and error on a smaller, usually provincial scale. Only if they produced success, they were applied elsewhere. This coincided with a gradual approach to reform. The Chinese government rejected the notion of shock therapy preferring the gradual approach to systemic change and reorientation of the state apparatus. China's post-1978 reforms have followed a clear pattern: easy, rural and concentrated in coastal regions ones first; difficult, urban, inland ones second. The experiences gained in the first stage were developing comparative patterns for the next stage. This reflects an Asian tradition of selective culture borrowing witnessed earlier in Japanese or Korean cases.

The process of Chinese reforms was not smooth, though. The Communist Party greeted the end of the cold war by adopting the 'bamboo policy' – bending with the wind rather than standing straight and eventually snapping. The fact of Chinese capitalism success, especially in overcoming the consequences of financial and economic crisis after 2008 is often emphasized in Chinese propaganda. However, more and more data concerning Chinese internal economic affairs indicate that the PRC also faces some quite serious challenges (*Keynes v Hayek in China*). The party abandoned strict central planning. However, only few have noticed that it only embraced capitalism in so far as it could be exploited instrumentally. It is important to note that it was used not only to benefit the state power but also other interest groups._

In the course of reforms two Chinas were developed: one rural and entrepreneurial and the other urban and controlled by the state. The 80s were dominated by the rural

China. Under a somewhat misleading label of 'Township and Village Enterprises'[8], peasants, no longer tied to the land, were free to set up manufacturing, distribution and service businesses while state banks provided the finance. This tendency was abandoned after 1989 and the Tiananmen Square protests. In this paper author's opinion Tiananmen events also marked the eradication of impulses to introduce entrepreneurial capitalism in China. Policymakers, afraid of large and uncontrolled rural population rushing to the cities have forsaken the policies of loosening grip on the countryside and concentrated their efforts on rapid and easier to control urban development and started to favor more easy to manage state-owned enterprises and big foreign multinational companies[9]. The cost of such a turn in politics was huge. The growth of average household income and poverty eradication slowed while income differences and social tensions between various social groups and various regions of the country widened. This was to be made up by the growing number of strong Chinese companies starting to act on the world stage. Again, for many observers this was an indication that after the setback of 1989 China again was on its way to free market economy. On closer inspection, as shown above, these enterprises are sometimes less private than generally perceived. This laid the foundation of the current state capitalism dimension of the Chinese economy.

However, this is not the only important or the dominant dimension of economic system of Middle Kingdom. In certain strategically important fields, the managerial capitalism dimension is getting more and more predominant. In the course of developing strong and state backed enterprises, behemoths like Chinese oil or IT companies, became more and more independent from the strict control of the state apparatus. Although they strive to achieve the goals officially formed by the state, more and more often the nature of the process of the goals' achievement makes the state more dependent on them than them on the state. For example, on the one hand, all Chinese oil companies, developed on the break of the 80s and the 90s, run in the world race for energy resources, what determines the fate of the PRC's economy. On the other hand, as they gain in prominence, the state is less and less able to influence

[8] This was the reason why many Western observers failed to notice that these formally collective businesses were in fact private.

[9] The Chinese officials often state that the companies controlled by SASAC were modernized and that their performance has increased, to $129 billion in 2010. It is hard to say that all of them are truly efficient, though. A smaller part of companies active in telecoms and natural resources markets generate more than half of all profits of the enterprises controlled by SASAC. If state-owned companies were to pay a market interest rate, their profits could have been nullified altogether (Bremmer 2010).

their codes of conduct, business practices and organisation. It is enough to say, that there is no single state entity controlling their policies. There is not even a ministry or department coordinating state's policies regarding oil. All the reforms aiming to introduce one were ridiculously prolonged and eventually abandoned. Thus, in practice, after dismantling all departments and ministries that could have exercised some form of control over oil policy of Middle Kingdom in the 90s, practically the fate of Chinese oil policy is in the hands of managers of the leading Chinese oil companies. The same concerns many IT companies evading the full administrative control due to the innovative nature of the industry.

Parallel to managerial- and state capitalism dimension of the PRC's economy, one should not disregard the potential for development of oligarchic variation in Middle Kingdom. As it was already mentioned, the differences between possible professional carrier paths of common people and members of well-established elites are not only widening but also slowly becoming the sources of social disappointment. The mentioned princelings generation almost exclusively occupies the most lucrative posts in the state apparatus and in the Chinese companies. The phenomenon becomes more and more visible too. For example, Xi Jingping, most probably the next leader of the Chinese state, and all his close associates have already secured profitable posts for their children. The same concerns his competition as well as all the members of the present and the future Chinese Politbiuro. This may seem not surprising in autocratically governed state. However, in case of China, the issue became so important in internal affairs, that the competition for lucrative posts between various political interest groups is slowly becoming one of the mainstreams of politics (*China's New Leaders*).

Summary

Chinese scholars and intellectuals were always sceptical about a unique character of Chinese model. The Chinese leadership and academic environment has always argued that China's reforms are not aimed at growth and wealth, but at the state's modernization. The PRC's model as an intellectual symbol of national pride became popular after the Olympic Games and the financial crisis in the West in 2008. Regardless of control of the speech, the Chinese politicians seem to be sincere when they talk about China's modernization and distaste for free-market. They do not aim to introduce it. They aim only to exploit its advantages without impeding socialist state power. Thus, there is still much more socialistic influence and mode of thought in Chinese transformation than many external observers notice. It also seems that the outside world wants to see more capitalism in China than Chinese politicians themselves.

The form of capitalism that has come to prevail in China is hard to be labelled simply as state capitalism. To a certain extent, it meets the requirements of this theoretical category – particularly large scale involvement of government in growth. However, in certain areas it faces a threat of degeneration to oligarchic model as the technocratic elites begin to monopolize the positions of power. The picture is further complicated by the rise of international Chinese companies which as state champions, sometimes not only follow the aims of the state, but also set them for it, as in case of oil companies. To say that the PRC presents a mixture of several types of capitalism variants would be too little, though. Many economic systems share characteristics of more than one of the capitalist models. The problem of Middle Kingdom is different. China is still a developing country experiencing dynamic processes of social and economic changes. However, in contrast with other developing countries, the strong institutions and large state capacity enabled it not just to follow one of the capitalist variants and adapt to global economic environment but also to exploit the capitalist institutions to its own ends. The outcome is still on-going reciprocal transformation of the Chinese state and the Chinese capitalist model. Both of them are still far from assuming their final shapes.

It is hard to define the Chinese variation of capitalism. The reason is not the scarce data concerning the performance of Chinese economy or social situation. Nor it is the cultural difference between China and the West and the following misconceptions and misjudgements concerning the PRC's economy. The true reason is the fact that we are dealing with many parallel variations rather than a single variation of Chinese political economy. Middle Kingdom employs capitalist instruments to its own ends. In the same time, it is under pressure of globalizing international environment to adapt itself to the rapidly changing external political and economic conditions. The outcome is the mixture of western-like capitalist institutions with Chinese state traditions grounded on still influential experiences of Mao's times. If we look closer at various Chinese regions or economic and social spheres, we can see not one, but many Chinas. The same concerns Chinese variations of capitalism.

Is a single Chinese variation of capitalism possible in the future? We may assume that in the course of Chinese transformation one of the variants already present in the PRC will dominate the other. The author of the paper does not agree with such an assumption, though. China may be perceived as a uniform state only from the outside point of view. The closer we examine it, the more internal differences we encounter. The size and volume of Chinese economy may make it impossible to form a single capitalist variant for it as a whole in the future. However, it is possible that its certain segments will follow a defined and clear path of development. Oil and IT industries, mentioned in the text, are good examples. Thus, it seems that in case of the PRC it is worth not to look for a single Chinese variation of capitalism for the whole economy but for individual variations of capitalism dominating its different segments. Such an approach may seem to be disappointing from the theoretical point of view. However, its practical implications may make up for theoretical shortcomings. For last thirty years China has learnt about the complexity of the outside world. Maybe it is time for the world to learn about the complexity of China.

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