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China's Economic Success Proves the Power of Capitalism

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Leadership Strategy

The psychology of success and wealth and the power of capitalism.

Shenzen, China's first capitalist special economic zone, grew from 60,000 to 12 million inhabitants... [+] in just 40 years.

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Between 1958 and 1962, 45 million people starved to death in China as the result of the largest socialist experiment in history. Mao called this experiment the “Great Leap Forward,” but for China it was a disaster.

Today, China is the world's leading export nation, ahead of the United States and Germany. Above all, never before in history have so many people escaped poverty in such a short time as in the past decades in China. According to official World Bank figures, the percentage of extremely poor people in China in 1981 stood at 88.3%. By 2015 only 0.7% of the Chinese population was living in extreme poverty. In this period, the number of poor people in China fell from 878 million to less than ten million.

The Problem With Prevailing Explanations Of China’s Success

It is widely believed that China’s success is based on a uniquely Chinese “third way,” a political and economic model that occupies the ground between capitalism and socialism. According to this interpretation, China is successful because the state continues to play an important role in the Chinese economy. But this interpretation is wrong.

In fact, China’s success provides clear evidence of the power of capitalism. Under Mao, the state had an omnipotent grip over China’s economy. What has happened over the past few decades can be summed up in a few sentences: China has progressively embraced the tenets of free-market economics, introduced private ownership, and gradually reduced the influence of the once all-powerful state over the Chinese economy. That the state still plays a major role today is simply because China is in the midst of a transformation process that began with complete state dominance of the economy.

Today In: Leadership

However, as the Chinese economist Zhang Weiying stresses, China’s success in recent years has “not been because of the state, but in spite of the state.” Here are some facts:

Impressed By The Success Of Singapore

For leading Chinese politicians and economists, 1978 marked the beginning of a busy period of foreign travel to bring back valuable economic insights and apply them at home. Chinese delegations made over 20 trips to more than 50 countries including Japan, Thailand, Malaysia, Singapore, the United States, Canada, France, Germany and Switzerland. The Chinese were especially impressed by the economic successes of other Asian countries. Although barely acknowledged, the economic dynamism of China’s neighboring countries in particular was seen as a role model.

On his visit to Singapore, Deng was impressed by the local economy, which was far more dynamic than the Chinese economy. Lee Kuan Yew, Singapore’s founding father and long-time prime minister, remembers: “I had told Deng over dinner in 1978 in Singapore that we, the Singapore Chinese, were the descendants of illiterate landless peasants from Guandong and Fujian in South China … There was nothing that Singapore had done that China could not do, and do better. He stayed silent then. When I read that he had told the Chinese people to do better than Singapore, I knew he had taken up the challenge I quietly tossed to him that night fourteen years earlier.”

However, this newfound enthusiasm for other countries’ economic models did not lead to an instant conversion to capitalism, nor did China immediately ditch its planned economy in favor of a free-market economy. Instead, there was a slow process of transition, starting with tentative efforts to grant public enterprises greater autonomy, that took years, even decades, to mature and relied on bottom-up initiatives as much as on top-down, party-led reforms.

More Private Property, More Liberalized Markets

Long before the official ban on private farming was lifted in 1982, peasant-led initiatives to reintroduce private ownership against socialist doctrine sprang up across China. The outcome was extremely successful: people were no longer starving and agricultural productivity increased rapidly. By 1983, the process of de-collectivizing Chinese agriculture was almost complete. Mao’s great socialist experiment, which had cost so many millions of lives, was over.

Initially, the growth in private ownership across China was driven by increasing numbers of small-scale entrepreneurs setting up businesses, which were only allowed to employ a maximum of seven people. The increasing erosion of this socialist system that exclusively permitted public ownership under the management of a state-run economic planning authority was accelerated by the creation of Special Economic Areas. These were areas where the socialist economic system was suspended and capitalist experiments were permitted. The official proclamation of the market economy at the Fourteenth Congress of the Chinese Communist Party in October 1992—a step that would have been unthinkable only a few years before—proved a milestone on the road to capitalism.

To understand the dynamics of the Chinese reforms, it is crucial to note that the extent to which they were initiated “from above” was only one part of the picture. Many contributing factors happened spontaneously – a triumph of market forces over government policy. Key institutional innovations were instigated, not in the offices of the Politburo, but by countless anonymous agents acting on a local level, and in many cases against the rules.

China’s development in recent decades demonstrates that rising economic growth—even when accompanied by rising inequality—benefits the majority of the population. Hundreds of millions of people in China are far better off today as a direct result of Deng’s motto “let some people get rich first.”

Which Path Will China Take Now?

For all the positive developments China has seen in recent decades, a lot still remains to be done. Although its economic growth was accompanied by an increase in economic freedom, there are still deficits in many areas. China has both a strong need for further reforms and great potential for further improvement and growth. Zhang—who, as well as being an astute analyst of the Chinese economy, has himself contributed significantly to its development—stresses: “China’s reform started with an all-powerful government under the planned economy. The reason China could have sustained economic growth during the process of reform was that the government managed less and the proportion of state-owned enterprises decreased, not the other way around. It was precisely the relaxation of government control that brought about market prices, sole proprietorships, town and village enterprises, private enterprises, foreign enterprises, and other non-state-owned entities.” Taken together, all of this formed the basis for China’s unprecedented economic rise.

As Zhang emphasizes, this process of transformation is far from complete: “Government control over large amounts of resources and excessive intervention into the economy are the direct cause of cronyism between officials and businessmen, are a breeding ground for official corruption, seriously corrupt commercial culture, and damage the market’s rules of the game.” Accordingly, he sees a strong need for further reforms toward marketization, reduction of government control over resources and intervention into the economy, and the establishment of a true rule-of-law society.

Whether or not China will go down that road remains to be seen. The process of reform has never been a smooth and consistent one—rather, it has been marred by frequent setbacks, especially in recent years, when instances of governmental intervention in the economy have set back the reform process. The greatest danger for China is that the Chinese themselves will start to believe what many people in the West already think—that the country has discovered a special “third way” between capitalism and socialism and that economic success has been achieved not in spite of, but because of, the great influence of the state.