

Hu Jintao and State Capitalism: Rethinking China's Domestic and Regional Role

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Abstract: China as the world's largest trading partner has developed its own form of capitalist political economy. China's state capitalism is already global in reach and poses a challenge to other forms of capitalism, for example, the anglo-American capitalist system or continental capitalism (Rhine or Rhenan capitalism, practiced on continental Europe). This form of state capitalism is quite different from its Western version and is characterized by a reliance on informal business networks, guidance from the state and socialist and imperial influences. It is a system in which the Chinese government uses capitalism and free markets to advance their own power and interests. Is Chinese state capitalism a new economic paradigm or a rejuvenation of old policies under a new consensus? With a new president elected in 2012, how has China benefitted from capitalism under the tenure of Hu Jintao? Will a revival of Marxism alleviate economic and social imbalances and lift the masses out of poverty into the capitalist overdrive. What is the history of Chinese capitalism in the region and how does it influence good neighbor relations? The aim is to provide answers to these questions which also constitute the theme of the study.

Key words: State capitalism, Chinese characteristics, good neighbor relations, economic, government markets

INTRODUCTION

What are the general characteristics of China's state capitalism? The argument is that China has developed a unique capitalist system borrowing from other economic models. The call by president Hu Jintao that the great rejuvenation of the Chinese nation shall only be achieved by adhering socialism with Chinese characteristics is outlined in the first part. It is a known fact that China has experienced rapid economic growth since Hu took over the command. The special characteristics of his tenure and how it favored the economy are discussed here. There are many names given to China's capitalist system, one the term sino-capitalism coined by Christopher (2006). He provides a clear distinction and history of how this model is the backbone of the current system and remains so until today. This is in collaboration by the call that democracy is not a pre-requisite for a state to follow a capitalist economic approach which is almost perfected by China. Secondly in the last couple of years, there has been a call for a revival of Marxism to lend greater impetus to economic sustainability and growth. Why do the leaders think that Marxism is the golden mean to success? The main point is that the people must not forget the origins of China's current success story. Assessing the roots of Marxism, the argument is that a transformation of China's economy can sustain economic growth and initiate new ideas, knowledge and discourse and further transition the capitalist model. How does China's state capitalism influence the region? It is known that Chinese

capitalism has existed in Southeast Asia, since the latter part of the 20th century by way of business networks and Guanxi. For that matter, it is not a new concept but a continuation of an old model. Economic integration and cooperation, Asian natural harmony, peaceful rise and coexistence, the attainment of a common Asian identity and good neighbor policy are in essence derived from the concept of Guanxi and strong family bonding. China uses the earlier mentioned catchphrases to tailor make its regional economic policies, attain dominance, in terms of realism follow an approach of self help and develop asymmetrical integration strategies. What it boils down to is that China views itself as the regional administrator and in essence is not following a collaborative strategy for regional growth and prosperity. This has a binary effect for the region. First, some countries may be skeptical about China's capitalist driven economy because it renders macro control to the government at the expense of social and income equalization. Secondly, other countries view China's model as an effective tool in harmonizing state control with private industrial development.

STATE CAPITALISM WITH CHINESE CHARACTERISTICS UNDER PRESIDENT HU JINTAO

The modern capitalist system in China, according to Dr. Christopher McNally, has its roots in the entrepreneurial overseas, Chinese communities who

established a network of businesses in the Asian region after World War II. These networks were brought back to mainland China where they developed from the bottom up during the reforms of the late 1970s. This form of capitalism is directed solely by the CCP and is thriving, in part, because policies foster economic expansion which then bolster CCP legitimacy, these actions then loop and repeat. China's imperial history can also be used to describe this system where the state is dominant and the citizens are subservient to its policies. However, Sino-capitalism is still in a transitional phase. The lack of legal regulation in China requires businesses to develop good relations with the CCP but a slowly emerging capitalist class could challenge the state's ability to make or implement economic policies. As China becomes more prosperous and integrated into the global market, so American policy makers have thought, China will also become more democratic. For democracy to function, there must be centers of power outside of government. Capitalism decentralizes economic power and thereby provides the private ground in which democracy can take root. But, China shows that the reverse may not be true, capitalism does not need democracy. Capitalism's wide diffusion of economic power offers enough incentive for investors to take risks with their money.

Central to China's approach are policies that champion state-owned firms and other so-called national champions, seek aggressively to obtain advanced technology and manage its exchange rate to benefit exporters. It leverages state control of the financial system to channel low cost capital to domestic industries and to resource-rich foreign nations whose oil and minerals China needs to maintain rapid growth. China's policies are partly a product of its unique status; a developing country that is also a rising superpower. Its leaders do not assume the market is preeminent. Rather, they see state power as essential to maintain stability and growth and thereby ensuring continued communist party rule. It is a model with a track record of getting things done, especially at a time when public faith in the efficacy of markets and the competence of politicians is shaken in much of the West.

China's capitalists are more rapacious than America's robber barons of the 19th century or Russia's bandit capitalists of the new Russia of the 1990s. More greedy than the multibillion-dollar fortunes accumulated on Wall Street's fast tracks that once took several generations to build and that are now made in a year or two and more capitalist than the US ever dreamed of becoming and viciously so.

McNally, in another study on China's capitalist transition asserts that China possesses certain similarities

with the sino-capitalisms of Taiwan and Southeast Asia. China's capitalist development is clearly taking place under the strong influence of globalization but the internalization of China's economy has been highly partial. The strong integration of the Chinese economy into the world capitalist system has created economic spaces that are divorced from China's domestic economy but highly integrated into global production networks (Christopher, 2006). Despite major advances China's transition towards capitalism remains incomplete. Substantial institutional and legislative uncertainty affects the domestic political economy inducing private entrepreneurs to forge clientelistic and idiosyncratic ties to the party-state (Christopher, 2006). Perhaps the biggest question concerning China's future is, therefore, whether its political economy will stay stuck in the form of Chinese crony capitalism or continues to evolve. His finding is that given the PRC's dissimilar ideological and political vantage points when compared to other East Asian late developers at the end of the day, the evidence shows that capitalism is emerging in the Dragons' lair (Christopher, 2006).

China is rapidly creating the world's largest middle class to provide an engine for long-term domestic consumer demand. In a capitalist system, there is always social inequality and China's massive inequality emphasizes this tendency. Francis Fukuyama wrote that state-owned enterprises are back in vogue and were the chosen mechanism through which Beijing administered its massive stimulus. China's success in navigating economic crisis is based on the ability of its authoritarian political system to make large, complex decisions quickly and make them relatively well at least in economic policy. Chinese leaders which were taught on Marxism realize that there is no contingent relationship between capitalism and democracy nor are Beijing's leaders under any illusions that the free market could take care of such basic needs as education, health care and infrastructure necessary to keep the system as a whole growing. China competes as a government against the West's private companies, undermining the true principles of capitalism and creating an unfair business environment. But the world seems to have accepted China on these terms and have even tolerated their continued repression of free speech, free assembly, a free press, open elections and other basic pillars of democracy.

Charlene Barshefsky, who as US trade representative under President Bill Clinton helped negotiate China's 2001 entry into the World Trade Organization, says the rise of powerful state led economies like China and Russia is undermining the established post-World War II trading system. When these economies decide that entire new

industries should be created by the government, it tilts the playing field against the private sector. Western critics say China's practices are a form of mercantilism aimed at piling up wealth by manipulating trade. Ian (2010)'s book, *The End of the Free Market: Who wins the war between states and corporations*, mentions that state capitalism is not the reemergence of socialist central planning in a 21st century package. It is a form of bureaucratically engineered capitalism particular to each government that practices it. It is a system in which the state dominates markets primarily for political gain. As this trend develops, it will generate friction in international politics and distortions in global economic performance. There are times when governments must protect citizens from the worst effects of under-regulated markets. But over the longer term, there is no evidence that political officials regulate economic activity better than market forces can (Ian, 2010). According to Bremmer, there are now two systems out there. There is a Free Market System, largely in the developed world. There is a State Capitalist System in China, Russia and the Persian Gulf. The systems are mutually incompatible (Ian, 2010). When your principal actors are multinational corporations in the private sector, they will feed on China's vital resources for growth. But, Ian (2010) highlights that the worst weaknesses of China's state, led capitalism, is a reliance on creating state companies and not the efficient private ones. A weak financial sector, pollution and rampant corruption are also negative factors distorting the economy.

Nationalism has become the main element of the capitalist discourse and identity of the CCP, transforming the ideology and nature of the party. China is traversed by great social and regional imbalances. The reforms have caused concentration of incomes, social polarization and increased inequalities (Maria and Esther, 2008). The social base of the Chinese regime is the new emergent bourgeoisie, related to the apparatus of the state and the party and a significant urban middle class which also includes the most qualified sectors of the wage earners and many civil servants and members of the state apparatus.

China's vigour owes much to what has been happening from the bottom up as well as from the top down. Just as Germany has its mighty *Mittelstand* (*Mittelstand* refers to small and medium-sized enterprises in German-speaking countries, especially in Germany, Austria and Switzerland. Economic and business historians have been increasingly giving *Mittelstand* companies more and more credit for Germany's economic growth in the beginning of the 20th century), the backbone of its economy so China has a multitude of

vigorous, (very) private entrepreneurs a fast-growing thicket of bamboo capitalism. These entrepreneurs often operate outside not only the powerful state-controlled companies but outside the country's laws. As a result, their significance cannot be well tracked by the state-generated statistics that serve as a flawed window into China's economy. Some economists ascribe the success of China's capitalist model or new paradigm over the last decade as government-directed industrial integration. For example, the Chinese government's merging of two completely different industrial systems into one single fighting unit in the copper mine project in Afghanistan.

At the hundredth anniversary of China's 1911 (The 1911 revolution which began on Oct 10, 1911 with an armed uprising, ended 2,000 years of imperial rule by toppling the Qing Dynasty in 1644-1911 and resulted in a Republican Government, the first in Asia) revolution president Hu Jintao emphasized that the correct path for the Chinese people is the path of socialism with Chinese characteristics and the core force is the CCP. History has shown that this path accords with China's realities and the demands of the times and conforms to the fundamental interests of the overwhelming majority of the Chinese people and the fundamental interests of the Chinese nation. Development in China should be by the people and for the people and of benefit to all the people. Economically, Hu has overseen the hottest period of growth for China in its modern history double-digit growth in GDP has been the norm. Hu and his party Elite have actually spent most of their efforts to try and cool down the economy and stabilize that growth so that is more sustainable.

But, China has been making bank for years now and it has certainly paid off in the current recession, China still got money in the bank and thanks to its more heavy-handed government oversight on its capitalist-styled economy, the damage wrought on the Western economies by their capitalists excesses has not impacted China as much and quite frankly is making the Chinese-style capitalism a model for other Asian economies who are increasingly looking towards Hu and his Chinese compatriots as the natural leaders of the 21st century. On the downside, there have been three disturbing economic trends during his rule. First, Hu has been blocking high-profile foreign acquisitions, especially beginning in 2007 with Microsoft's attempt to take a stake in Sichuan Changhong Electric and Goldman Sachs's moves on Midea Electric and Fuyao Group. Carlyle was frustrated in its multi-year pursuit of Xugong Group construction machinery late last decade and the central government used its new anti-monopoly law against Coca

Cola when the American icon tried to buy Huiyuan Juice Group in 2009 (Chang, 2011). Second, Hu's government has been renationalizing the economy for about a half decade. During his tenure, China investment corp the sovereign wealth fund and the national social security fund went into the Chinese stock markets to buy up shares that were in private hands (Chang, 2011). Third, Hu has been busy shutting out foreign competitors as he has embraced a new economic paradigm of closing the country down. The Chinese government has actively tried to cripple foreign competitors, for instance, Beijing officials, targeted google, surreptitiously obtained its source code and then undermined its ability to compete in order to help local search engine Baidu (Chang, 2011).

IS A REVIVAL OF MARXISM THE ANSWER? THOUGHTS, IDEAS AND RECOMMENDATIONS

Marx described capitalism as an economic system constituted by two fundamental features, the exploitation of wage labour by capital and the competitive accumulation of capital. In other words, under the capitalist mode, on the one hand, the immediate producers are denied access to the means of production and thereby compelled to sell their labour-power to the capitalists who do control these means on terms that lead to the worker's exploitation and on the other, the competitive interaction of rival capitals leads to the re-investment of a large share of the profits that are fruits of this exploitation in the further development of the productive forces (Alex, 2007). China's recent drive to industrialize further confirms an old Marxist precept; the capitalists are driven by the laws of their own system to create, expand and empower their own gravedigger, the proletariat. This leads us to the concept of exploitation of which there are three different kinds, according to most versions of Marxian Theory feudal, slave and capitalist. Capitalist exploitation is unique because it is the only form of exploitation where the workers freely sell their labor power to others while having the choice to not do so. Thus, capitalism needs markets where this capitalist freedom prevails or it cannot exist.

A key step in the transformation of China into a capitalist social formation is the expansion of capitalist labor markets and the creation of social institutions supportive of those labor markets (To risk further repetition, these social institutions are not generic but are shaped in the unique environment of the social formation in question). The creation of such supportive institutions is necessarily coincident with the destruction of institutions supportive of state feudal labor allocation (Alex, 2007). The pre-reform Chinese economic system

was based in a mutual obligation of the employee and the employer, creating in the worker bonds of feudal fealty and dependence and creating within the workplace, the subsumption of the individual worker to the discipline of a hierarchically organized form of exploitation. In capitalism, employment contracts are never permanent and allow the worker the freedom to quit and capitalist managers the freedom to fire (Gabriel, 2006).

Is authoritarian capitalism the future? Will a political democracy as the natural accompaniment of capitalism emerge? Looking at the current situation any such hope is quickly dispelled. In modern-day, China is not an oriental despotic distortion of capitalism but rather the repetition of capitalism's development in Europe itself. In the early modern era, most European states were far from democratic. And if they were democratic (As was the case of the Netherlands during the 17th century), it was only a democracy of the propertied liberal elite, not of the workers. Conditions for capitalism were created and sustained by a brutal state dictatorship very much like today's China. The state legalized violent expropriations of the common people which turned them proletarian. The state then disciplined them, teaching them to conform to their new ancillary role.

The features, we identify today with liberal democracy and freedom (Trade unions, universal vote, freedom of the press, etc.) are far from natural fruits of capitalism. The lower classes won them by waging long difficult struggles throughout the 19th century. Recall the list of demands that Karl Marx and Friedrich Engels made in the conclusion of *The Communist Manifesto*. With the exception of the abolition of private property, most of them such as a progressive income tax, free public education and abolishing child labor are today widely accepted in bourgeois democracies and all were gained as the result of popular struggles (Gabriel, 2006). So, there is nothing exotic in today's China. It is merely repeating our own forgotten past. But what about the afterthought of some Western liberal critics who ask how much faster China's development would have been had the country grown within the context of a political democracy? The German-British philosopher Ralf Dahrendorf (Dahrendorf argued that society is split up into the command class and the obey class and class conflict should refer to situations of struggle between those with authority and those without. A typical description of the class conflict in China where the CCP has absolute control over the working classes, hence the workers referred to as the exploited and the government as the exploiters) has linked the increasing distrust in democracy to the fact that, after every revolutionary change, the road to new prosperity leads through a valley of tears. In other words,

after the breakdown of state socialism, a country cannot immediately become a successful market economy. The limited but real socialist welfare and security have to be dismantled and these first steps are necessary and painful. For Dahrendorf, this passage through the valley of tears lasts longer than the average period between democratic elections. As a result, the temptation is great for leaders of democratic countries to postpone difficult changes for short-term electoral gains. Looking at the writings of Dahrendorf, there is no serious attempt by the CCP to put China on the road of democratization and China is not stuck in a valley of tears because the state socialist system has not finally broken down. The CCP by providing fiscal stimulus programs is delaying the collapse of the social market economy and rather establishing favorable conditions for domestic consumption (Gabriel, 2006).

China, in its passage to capitalism, is using unencumbered authoritarian state power to control the social costs and thus avoid chaos. The weird combination of capitalism and communist rule proved to be a blessing (not even) in disguise for China. The country has developed fast, not in spite of authoritarian rule but because of it. The CCP resuscitates big ideological traditions in order to contain the disintegrative consequences of the capitalist explosion that the party itself created. It is with this in mind that one should read the recent campaign in China to revive Marxism as an efficient state ideology. Strange as it may sound this return of Marxism is the sign of the ultimate triumph of capitalism the sign of its full institutionalization. For example, China has taken recent legal measures to guarantee private property, a move that the West has hailed as a crucial step toward legal stability.

But what kind of Marxism is as appropriate for today's China? First, let's look at the difference between Marxism and Leftism. Leftism is a term that refers to any talk of workers liberation from free trade unions to overcoming capitalism. But, the Marxist thesis says that developing the forces of production is the key to social progress and it is this type of Marxist development that fosters the conditions for the continuing fast modernization. In today's China, only the communist party's leading role can sustain rapid modernization. The official (Confucian) term is that China should become a harmonious society. To put it in old Maoist terms, the main enemy may appear to be the bourgeois threat. But, in the eyes of the ruling elite, the main enemies are instead the principal contradiction between unfettered capitalist development that the CCP profit from and the threat of revolt by the workers and peasants (Raymond, 2008). For example, the Chinese government strengthened some of its oppressive apparatuses including forming special units of riot police to crush popular unrest. These police are the actual social expression of what in ideology, appears as a

revival of Marxism. But what if the promised democratic second act that follows the authoritarian valley of tears never arrives? That is what is so unsettling about today's China: Its authoritarian capitalism may not be merely a remainder of our past but a portent of our future.

On the negative side, the emergence of China as a major economic power poses a number of questions for Marxists. First, what will the effect be on the imperialist countries and developing economies? Second, will Chinese growth stabilise or disrupt international capitalism? Third, how will links between China and the global economy affect China itself? Marxism provides a basis for analyzing the contradictory nature of the links between China and imperialism. On the one hand, Chinese funds are currently crucial for maintaining growth in the US while Chinese development is fuelling production in Asia and providing a key location for investment flows from the West. On the other hand, this situation is unlikely to persist indefinitely and when it breaks down the potential for conflict in the arenas of both trade and investment appears significant. Both China and the US are preparing for such conflict but their preparations are constrained by the mutual dependency of their current relationship and cannot be allowed at present to disrupt that relationship. The extent to which China will develop as a credible challenger to the US in the medium run is still very uncertain. Analyzing the development of relations between China and the world economy is a crucial priority for socialists though.

Only through careful analysis of such relations can the common interests of workers in both China and the West be made clear, laying the basis for unity in confronting the global system that ties them together (Raymond, 2008). Can China evolve into an imperialist capital formation? It is a question that cannot be dismissed out of hand, though neither is it a straight-line, foregone conclusion. But it is a real possibility, China may be in a stage of transition to becoming an imperialist power. How likely is such a qualitative development and by what pathways might it proceed? These are historically contingent matters that will turn on the interaction of the motion and development of Chinese capitalism with the class struggle in China, with larger shifts, displacements and eruptions in world economics and with big and unexpected developments in world politics including wars and other conflicts, as well as revolutionary struggles (Raymond, 2008).

CHINESE CAPITALISM AND THE REGION: BUSINESS NETWORKS AND GOOD NEIGHBORLY RELATIONS

Historically, the Chinese government's encouragement of local business networks to set up shop all across the region, demonstrate the position of linking

social relationships and economic policy into mutual beneficial trading programs. Social capital of Chinese in the region is a defining element of the success of business networks in the region. The question is, are Southeast Asia's regional economic realities influenced more by organizational agency of ASEAN or by the functioning of Chinese capitalism and its extensive configuration of business networks and diaspora finance (Darryl, 2000). The underlying principles norms activities and informational relationships sometimes referred to as bamboo networks transcend state authority and constitute a mode of transnational capitalism in Southeast Asia. Chinese capitalism, it must be remembered, has developed without the support and coordination of a strong state but has nonetheless been the driving force behind capital accumulation in the region. Complex networks that connect ethnic Chinese in various countries while simultaneously interacting with state authorities through webs of patronage, function independently of the state (Darryl, 2000).

Specific cultural characteristics and a generally hostile environment have thus underpinned an articulation of Chinese capitalism that is distinct in its practices and norms. This articulation has been shaped by the particular socio-historical context as well as by the social capital of the Chinese in Southeast Asia but has also been a reflection of business expediency (Gary, 1996). Asia's network capitalism is generally associated with a generic model of Chinese capitalism and therefore sometimes termed sino-capitalism or Guanxi-capitalism. It is the dominant characteristic of overseas Chinese businesses and has emerged as an important current within global capitalism. In all cases of Asian network capitalism, state elites strategically launched capitalist institutions that allowed private enterprises to explore and connect with global markets.

Chinese entrepreneurs all over Asia marshaled traditional Chinese values of trade based on family and Guanxi networks creating a collective institutional solution to the lack of trust in governments. Business networks built on Guanxi still plays an important role in China's capitalist development (Christopher, 2006). The political economy emerging in China, therefore, parallels to some extent the evolution of network capitalism in Taiwan, Hong Kong and Southeast Asia. The closest analogy is the case of Taiwan. Capitalist development in Taiwan and the PRC is characterized by a certain duality. On the one hand, a large state sector dominates the commanding heights of the economy and is the direct counterpart to the central government's industrial policies. On the other hand, this state sector coexists and in the case of China, melds with a private sector characterized by a myriad of small and medium sized firms

structured by networks based on Guanxi. Put differently while producer goods sectors, transportation and finance are in the state's hands, the vibrancy and outward orientation of the economy is being driven by the Chinese network capitalism (Christopher, 2006). A China that strives for a reexamination of nationalistic goals holds a pessimistic outlook for the region. China's network capitalism facilitates economic integration, especially among the Sino-capitalisms of Taiwan, Hong Kong and parts of Southeast Asian economies. In addition, China's political efforts to engage with the region especially the China-ASEAN free trade area bode well for China's role in regional integration (Christopher, 2006).

The aim of China's regional cooperation with ASEAN is to provide a climate of sustainable growth amid global economic uncertainties. This is according to a statement made by premier wen jiabao at a recent meeting of financial leaders. Deeper regional cooperation is vital for common prosperity at a time when the slowing world economy has a visible impact on asia. China should solidify its position with its trading partners to meet the challenges that lie ahead and advance regional cooperation with a more pragmatic and open attitude (Wen calls for closer China-ASEAN cooperation in 2011). China's fiscal stimulation policies and sustained growth have not only made great contributions to regional economic recovery but also helped other regions in the world emerge from the crisis. Importantly, the premier said that having a good neighbor is better than possessing gold. A spirit of equality and mutual trust will shelve animosity and lead to strategic partnerships for peace and prosperity. This is the unswerving policy of the Chinese government. If China manages to convince its Southeast Asian neighbors that Chinese economic growth is good for them too and thus increases the degree of interdependence between them, then the costs to a potential challenger to Chinese interests are raised significantly. This approach gives the region a strong stake in ensuring China's future development.

Chinese leaders are well aware that China's rise causes great disquiet among its neighbors and in the international community. They are wary that the United States, Russia, India and other countries may react by trying to contain its growth. From Beijing's viewpoint, its activism in Southeast Asia is an important element of a hedge against such potential containment. Reassuring and pacifying Southeast Asia not only contributes to its economic development, it helps secure China's most porous periphery from encirclement, a perennial fear of the continental power. The reason China exercises so much influence on its neighbors is not because of the return of the tributary system after all, China exerted little real influence on its neighbors under this millennia old

arrangement but because of its size and wealth. Its power would simply decline if its economy shrank (Nathan, 2010).

Southeast Asians have responded to a decade of Chinese regional activism with open arms. It is a deeply pragmatic region and its reaction to China's rise is colored by geographical location and historical experience. Because of their proximity, these small and medium sized states accept the inevitability of living in China's shadow. While they may be wary of Chinese domination, many Southeast Asian leaders believe that the region suffered when China was weak and divided and they are more optimistic about a growing, self-confident China that embraces capitalist values.

A different group of analysts and economists are of the opinion that China is not following a good neighbor policy. They argue that the China is turning to cheaper currencies and fiscal restraint, leaving their rebounds reliant on foreign rather than domestic buyers for strength (Geithner warns of imminent beggar thy neighbor policies in 2010). It may sound as going against the grain of the current set of Chinese policies to boost domestic demand but the reality is that China is still overly reliant on its export-based economy which is good for China but not for the region. China should instead share its successful economic policies with poorer less developed countries in the region and engage in non-zero sum games using comparative advantage to promote peaceful relations, trade and expand wealth. The size and scope of China's economy is not leveling the playing field but installing a level of fear and dependency on big brother. For Beijing to roll back regional mistrust drawn from centuries of paying tribute to and warring with the middle kingdom leaders must devise a comprehensive Asia strategy that emphasizes deeds over words.

CONCLUSION

After all the hype on the revival of Marxism and if it will change the market system in China, one finding is that the CCP leaders does not really desire a free market model. Market reforms are proposed for the sake of increasing exports in relative terms to gain a competitive edge over rivals in manufacturing and capturing a big segment of the commodity market in the region. The central belief system of the CCP is still rooted in accumulating wealth for the elite at the cost of raising the living conditions of the masses. The new paradigm is better described as capitalism with Chinese features based on flexibility and pragmatism and not an exact version of Marxism.

Absolute control on every tiny detail of society is not standard practice as in the days of Mao and Deng. Rather the CCP is more interested in how strategic gains

in the capital market can place them in a better position than competitors. The market is an objective entity that requires scientific enquiry and is used as a tool to achieve economic goals, in other words, an ends to a mean. Leaders in China are still mastering the skills of market acquisition and dominance and this process can take some time. Western observers, however, note that the market is not a tool and that China's experiments with different market models will eventually fail if the system does not allow transparency. Further, the Chinese economic model is not a superior model to other capitalist economies but the approach indeed is. The core of this new paradigm in the Chinese economy is control. Only the most optimistic Marxist can still believe that an entirely controlled economy can work efficiently. Lack of inflation and full employment can be mandated but a flow of high quality goods to the public has never been generated by a communist economy which can match any ordinary capitalist one.

The observation is that China's capitalist model should not necessarily be emulated by countries in the region. It has its strengths and weaknesses and might be working for some but not for others. In other words, it is not mutually inclusive to economic growth for the region. From another point of view, China's state capitalism is working because it adapts quicker to changes in the international political economy. It is also dealing more effectively with the economic meltdowns as recessions of the last years have shown. It seems like China is coming out of every economic crisis stronger because it addresses the issues in a proactive way and not allowing for complacency to set in. A way forward for China is to continue with a moderate form of state capitalism that holds some rein on the unrestrained capitalists and has reasonable influence over industrial planning in concert with industry.

Many commentators note that the economic bubble in China will burst due to the government's strong control of the capital. This might be true but in the last decade China's state capitalist model has boosted exports, attracted investments and kept inflation and unemployment at a low. One weakness is that the social income gap income remains highly uneven and that a collapse of the housing market will increase inflation and brings down employment. China is not much different here than the US example. New market reform programs can focus on the deregulation to free up entrepreneurship, better rule of law to attract investment and a greater emphasis on commercial viability to prevent wasteful investment.

Lastly, the rapid development of capitalism in China is cohering a China-centered regional grid of capitalist production in East Asia in which Japanese imperialism

also plays a major organizing role. East Asia is the most dynamic manufacturing region in the world. China's rulers are fostering greater economic-political linkages throughout East Asia. International capital has molded China's economy into and integrated it as a key link in an East Asian regional system of high profit export-oriented production. This is proving to be rewarding for a country such as Vietnam that is quickly emerging as a regional economic power and facing more or less identical social inequalities as China. On the other hand, in countries where the division between capital and labor are huge and the economic infrastructure to a great extent still underdeveloped, a capitalist transformation will be a slow process or difficult to obtain. While, the CCP leadership proclaims that it endeavors peaceful relations and good neighbor policies based on reciprocal cooperation in the region a desire to become the regional economic hegemon is not ruled out and good neighbor relations in this instance is used only symbolically.

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