

Promise and Peril: Neoliberalism and Economic Reform in China

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On October 16th, 2022, the Chinese Communist Party (CCP) held its 20th National Congress. This twice a decade conference made international headlines after Xi Jinping was appointed for an unprecedented third term as General Secretary of the CCP and Chairman of the Central Military Committee (Yang). Furthermore, the CCP Constitution was amended to include the “Two Establishes” and “Two Safeguards,” which “defines Xi as the ‘core’ leader of the party and cements his ideas as the guiding principles of China’s future development” and “assures Xi’s ‘core’ status within the party and the party’s centralised authority over China” respectively (Reuters). Both of these actions show Xi’s further consolidation of power as the core leader of China, but were largely anticipated by outside analysts. In fact, many of the actions taken by the 20th National Congress were set up by the 19th National Congress in 2017. During this previous congress, presidential term limits originally set in place by Deng Xiaoping were removed and so-called “Xi Jinping Thought” was officially added to the CCP Constitution (Doubek). As party policy and control centralize around Xi Jinping, it is worth exploring the ideological path he has set China on, and the implications this has for China's economy and the world.

Xi Jinping has sought to position China as an alternative to the often coercive forms of development and aid the West provides. An article from China Daily, a newspaper run by the Propaganda Department of the CCP, argues that “The global South has had enough cookie-cutter models applied by certain Western institutions and as espoused by their governments” (Brahm). The 19th National Congress countered this by putting forward the idea of a “China solution” which claims to focus on sharing Chinese development experience and helping other nations

help themselves. The article goes on to say that the China solution “has set a tone for diversified localization rather than monolithic globalization” and emphasizes “the need for respect of diverse systems based on different people’s heritage” (Brahm). In reality, however, China has been accused of employing a strategy of “debt-trap diplomacy” by wielding loans as a political weapon against developing countries. Despite these inconsistencies, the CCP deems it important to differentiate itself as an ideological alternative (or even opponent) of the West. According to Roosevelt Institute, “China has begun to see itself as the next global hegemon, and believes the so-called Washington Consensus of free market economics and democracy should be replaced with the China Solution: an alternative to Western leadership that implements economic liberalization without liberalizing politically” (Zong). To make better sense of how Xi seeks to define China’s New Era, it is worth considering the ideology of the West he contrasts China with.

George Monbiot argues that neoliberalism, a term coined in 1938, is so pervasive that “we seldom even recognise it as an ideology” and that it has almost become “a neutral force; a kind of biological law, like Darwin’s theory of evolution,” yet for many of us this word doesn’t mean much (Monbiot). What is neoliberalism? According to Monbiot, “Neoliberalism sees competition as the defining characteristic of human relations. It redefines citizens as consumers, whose democratic choices are best exercised by buying and selling, a process that rewards merit and punishes inefficiency.” At its core, it imagines the world and all of its complex interactions as a market where choice and expression are simply forms of consumption and production. In the United States, “neoliberalism was triumphant in policy, leading to tax cuts, deregulation and privatization of public functions including schools, pensions and infrastructure” (Baradaran) The underlying message of neoliberal capitalism is that if everyone acts in their own self interest, the market will govern and regulate itself, leading to the prosperity of all. In reality, neoliberal

policies have led to dramatic transformation of the economy, sacrificing everything in pursuit of maximizing profit. Consequences of these policies include extreme wealth inequality, erosion of workers' rights, dismantling of environmental regulations, and "cutting jobs, pensions and salaries where possible" (Baradaran). While the CCP claims to support socialism and ostensibly oppose the modern neoliberal capitalist framework, it will become clear that China has more in common with the West than it claims.

Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era (习近平新时代中国特色社会主义思想), as it is formally referred to, was first introduced in 2017 with Xi's speech at the 19th National Congress as the official state ideology of the "New Era." In addition to formalizing the supremacy of the CCP within China's government, Xi outlined a path for a stronger, better, and cleaner China, while reaffirming the party's commitment to socialist ideals (BBC Monitoring). It can be hard to pin down exactly what Xi is proposing, and how it differs from previous CCP strategies. In fact, Pottinger argues that this may be intentional, claiming that "Much of Beijing's rhetoric, particularly when it is directed at foreign audiences, is confusing and ambiguous" (Pottinger). He goes on to say that "Xi does not represent as radical a departure from his more immediate predecessors as some analysts believe; his ambitions and those of the party that elevated him are broadly in sync." Therefore to fully understand Xi, it is necessary to begin with his predecessors. In his recommitment to socialism, Xi argues that "It is necessary to adhere to the comprehensive deepening of reforms. Only socialism can save China, and only reform and opening-up can develop China, so develop socialism, and develop Marxism." This statement closely mirrors the language that Deng Xiaoping used to describe China's reform and opening-up (改革开放).

In 1978, about three years after Mao's death, Deng Xiaoping rose to power and spearheaded the economic reforms that would forever change the Chinese economy (Vogel). Under Mao's leadership, farming and industry were collectivized and controlled by the state. Private enterprises were almost nonexistent until 1980 when Special Economic Zones (SEZ) were established in several cities to attract foreign investment via lower tax rates and less regulations. These regions served as test sites for new market-based economic policies and led the way for the powerful private sector in China today (Iman). In 1990, stock exchanges opened in Shanghai and Shenzhen and in 1996, smaller state owned enterprises were transferred to the private sector. These changes would have been unimaginable a few decades before, but as the Chinese economy responded well to increased market freedoms the CCP adopted further reforms. At the start of the reform and opening up, China's GDP was about 300 billion USD. This number skyrocketed in the following decades, reaching 6 trillion USD in 2010 and almost 18 trillion in 2021 (Statista).

Communist Party leaders recognized that this economic model was distinct from the previous centrally planned economy, and used a new term to describe it: socialism with Chinese characteristics (中国特色社会主义). In a talk given by Deng Xiaoping in 1984, he explained the motivations behind the new economic reforms and what socialism means for China. Deng argued that opening up the country to foreign investment and private ownership are necessary for the development of the Chinese economy and ultimately to "achieve a comparatively comfortable standard of living by the end of the century" (China Daily). However, he was careful to emphasize the CCP's continued commitment to socialism and explained that "Capitalism can only enrich less than 10 per cent of the Chinese population; it can never enrich the remaining more than 90 per cent." Deng saw this economic transformation as adapting existing socialist

ideology to the actual conditions and needs of China, and this ideological framework has formed the basis of modern CCP policy, and has now expanded to include Xi Jinping Thought.

By many metrics, Deng's plan was successful. Between 1990 and 2016 the number of Chinese people living in extreme poverty (making less than \$1.90 / day) dropped from over 750 million to just 7 million, less than 0.5 percent of the population (BBC News). China has become one of largest economies in the world, and its 13 trillion USD GDP is second only to the United States. A lot of this economic development can be attributed to the growth of the private sector, which now accounts for more than 70 percent of China's GDP (Stefanova). On the other hand, China has also been afflicted by the same conditions plaguing many free market capitalist countries. Despite Deng's disavowal of capitalist inequality, the wealth gap in China has grown dramatically since the reform and opening up. The percentage of wealth owned by the top 10 percent has skyrocketed to 65 percent in 2015, and the percentage of wealth owned by the bottom 50 percent has fallen from 27 percent in 1978 to 15 percent in 2015 ("Wealth & Inequality in the U.S. and China"). Despite being considered a socialist country, China's Gini index, another measure of inequality, has risen to 38.5, close behind the United States at 41.1 (CIA.gov). These metrics match those of a capitalist nation marked by high wealth inequality.

Many of the policies adopted by China in their pursuit of a limited free market economy such as decreased taxes and regulations in SEZs, and the handover of state-owned enterprises to the private sector during China's economic reforms mirror the neoliberal deregulation in the West. In the global market, China positioned itself as the "factory of the world", utilizing a vast population of cheap labor and lax safety standards to boost its economy. It has suffered the consequences of these policies including drastic wealth inequality described previously, skyrocketing cost of living in cities, and high mortality rates in unsafe working conditions.

Returning to the present era, it is difficult to conflate the neoliberal economic policy emerging from the reform and opening-up with the official socialist ideology of the CCP. Furthermore, Xi has publicly defended globalism several times, including during the World Economic Forum in Davos. He claimed “There is no point in blaming economic globalization for the world’s problems, as that is not the case and will not help with solving the problems” and rejected protectionism saying, “nobody will emerge as a winner in a trade war” (World Economic Forum). These arguments support a neoliberal free market economic policy, and benefit China as a nation rich from trade. Yet, at the same time it seems like China’s government is antithetical to neoliberalism. The CCP strongly restricts freedom of speech, censoring viewpoints critical of the government, and as a one party state, Chinese citizens do not vote in free elections and can’t easily make their voices heard. The CCP also continues to play a significant role in the economy, and CCP operates many powerful state-owned enterprises, which hold over 30 percent of total assets in the industrial and service sectors (Xu). China also regularly intervenes in the market to protect national interests, favoring domestic companies in intellectual property disputes, implementing tariffs on foreign goods, and consolidating power within state-owned enterprises. However, many large social and economic development plans, including the poverty reduction discussed earlier, are carried out by the central government. So how should we view China?

The term “state capitalism” best describes this mixed economic system by emphasizing both the free market capitalist framework and the state’s significant power over the economy. This mixed system is marked by an approximate 60-40 split between private and public sectors, and given China’s large economic influence, state-owned enterprises now make up almost 4 percent of the world GDP (Batson). The massive shift in China’s economy over the past few

decades has shown the CCP's gradual abandonment of socialist economic ideals as neoliberalism has broken down the last real communist power from the Cold War era. What does this mean for the rest of the world? Xi's continued commitment to "socialism with Chinese characteristics" shows that China is not reverting back to the socialism of Mao's era, but doubling down on the neoliberal policies pioneered by Deng and further securing the centralized power of the CCP. Zong succinctly and accurately describes this unique approach as "economic liberalization without liberalizing politically." Despite the CCP's portrayal of itself, it can no longer be considered an ideologically communist party, and in reality it is not a serious alternative to the West, just another player of the global neoliberal game. Yet the propaganda works, and China is still seen by the rest of the world as a communist country. The threat China poses is not as an ideological opponent to liberal capitalism, but as a warning of the forms neoliberalism can take, and the potential decoupling of free markets from free people.

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