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## The future of 'communist capitalism' in China

The question of whether Xi-ism is killing Deng-ism is growing

**MARTIN WOLF**



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What is the economic future of China? This question raises many specific issues, notably China's persistent macroeconomic imbalances, the threat of population

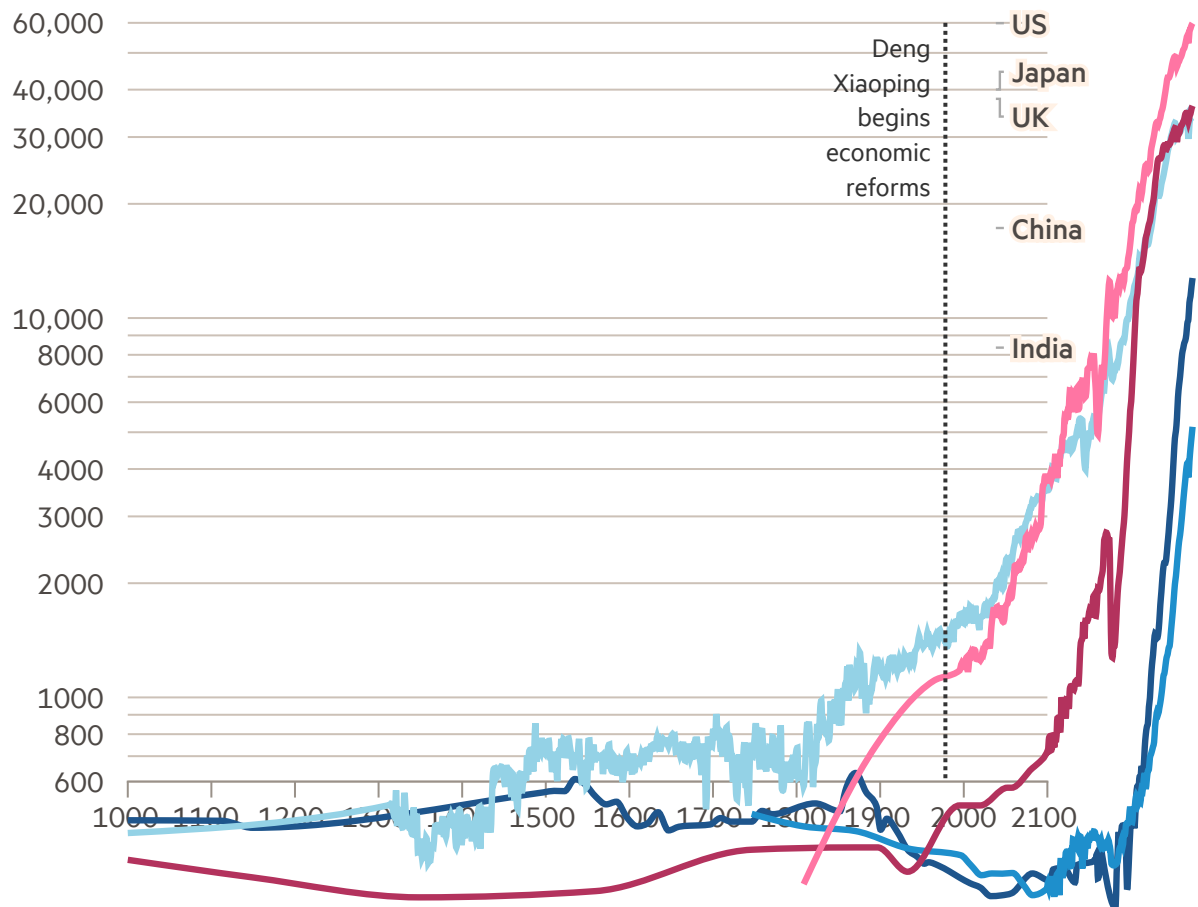
decline and worsening relations with important parts of the outside world, above all, an increasingly hostile US. But underneath all of these lies a deeper one: is “communist capitalism”, that seemingly self-contradicting invention of Deng Xiaoping, inexorably fading away under Xi Jinping? Will China’s regime ossify and, in the end, collapse, as the Soviet Union did?

I addressed some of these issues in a series of [columns published](#) last year. [Last week](#), shortly after returning from my first week-long visit to Beijing and Shanghai since 2019, I re-examined China’s structural macroeconomic challenges and raised concerns about the possible re-emergence of destabilising global imbalances. This week, I intend to address that far bigger one: is Xi-ism killing Deng-ism? A number of informed people I met were extremely gloomy, especially about prospects for the private sector. But will such problems ultimately be solved, or not?

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## Deng Xiaoping ended China's long economic stagnation

Real GDP per head, \$ in 2011 prices and at purchasing power parity



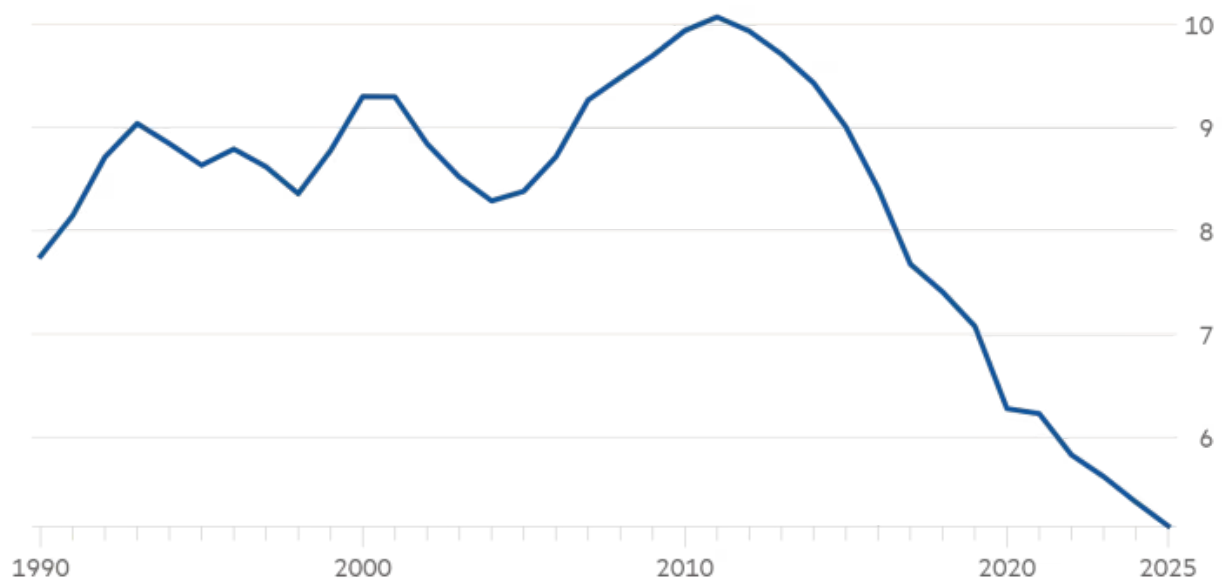
Much light on this issue is shed by [China's World View](#), a recently published book by [David Daokui Li](#), a distinguished Harvard-trained professor of economics, who teaches at Tsinghua University. People interested in China, be they hawks or doves, should read Li's valuable book carefully.

Perhaps its most startling observation is that "from 1980 until 1840, the beginning of China's modern history", income per head declined. Ancient China was in a Malthusian trap. This picture is even worse than the one shown in the [work of the late Angus Maddison](#). Even after 1840, this grim reality did not get much brighter. Only after Deng Xiaoping's "reform and opening up" did it change.

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## How low will China's decelerating growth fall?

China's real GDP per head, average annual growth over previous ten years (%)



2023-25 = forecasts

Source: IMF

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By freeing the private economy, relying on market forces and opening up to the world economy, Deng created the conditions for an extraordinary transformation. Yet, by repressing demands for democracy in [Tiananmen Square](#) in 1989, he also reinforced communist party control. He invented a new political economy: today's China is the

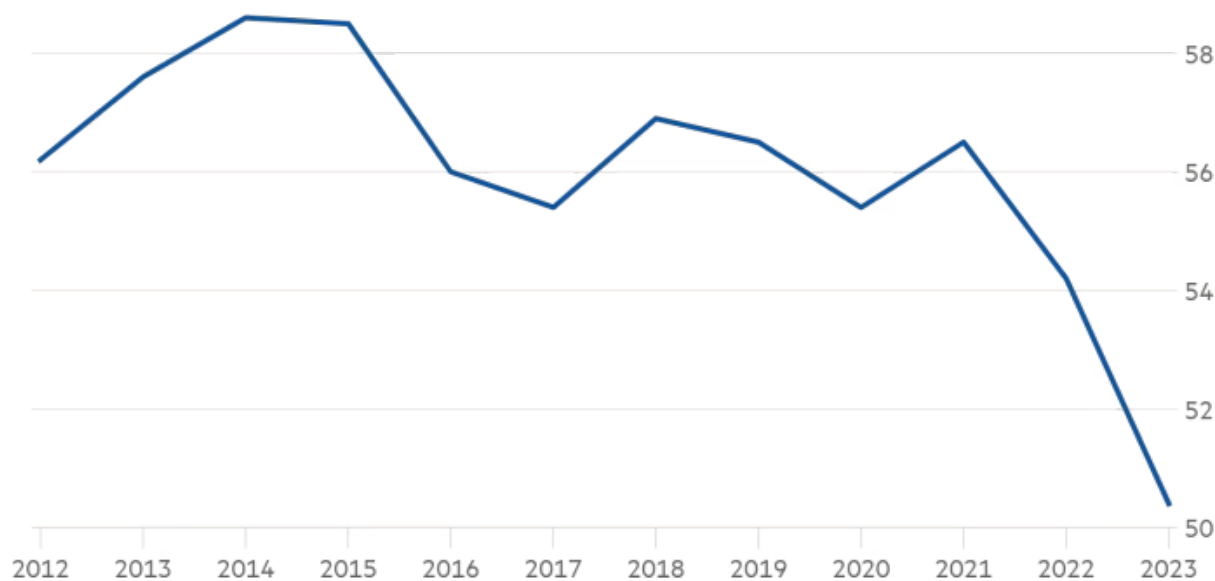
result.

Is it also sustainable? Li's book answers a clear "yes" to this question. In essence, he argues that China's political system should be viewed not as Soviet, but as a modernised form of the traditional Chinese imperial state. This state is paternal. It is responsible for the people, but not accountable to them, except in one fundamental way: if it loses mass support, it will be overthrown. Its job is to provide stability and prosperity. But, in doing so, it does not try to run everything from the centre. That would be crazy in so vast a country: it decentralises to local levels. The communist party should, he argues, be seen fundamentally as the national party of China.

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## The property bust has led to a fall in the share of private investment

Private sector share of China's fixed asset investment\* (%)



\* non-rural

Sources: National Bureau of Statistics, Peterson Institute for International Economics

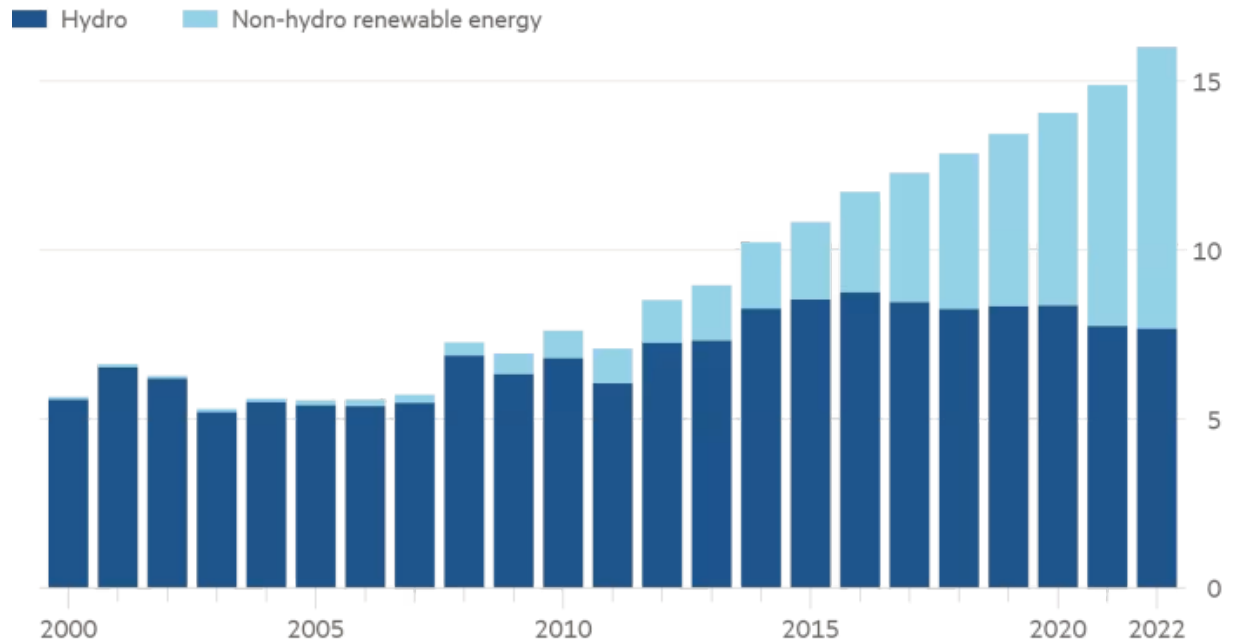
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From this perspective, the Xi regime does not represent an abandonment of the goals of the Deng era, but rather an attempt to remedy some of the problems created by its reliance on “go-go” capitalism, namely, pervasive corruption, soaring inequality and environmental damage. Problems also include criticism by the new plutocrats, notably [Jack Ma](#) of Alibaba, of protected areas of policy and politics. China's authorities are as concerned about the platform monopolies and instability of finance, as western ones.

Above all, argues Li, economic development remains a fundamental goal. It is just that there are others now, too, notably strengthening party control, social welfare, cultural development and protecting the environment.

## The increase in the share of renewable energy is impressive

Per cent of China's primary energy consumption



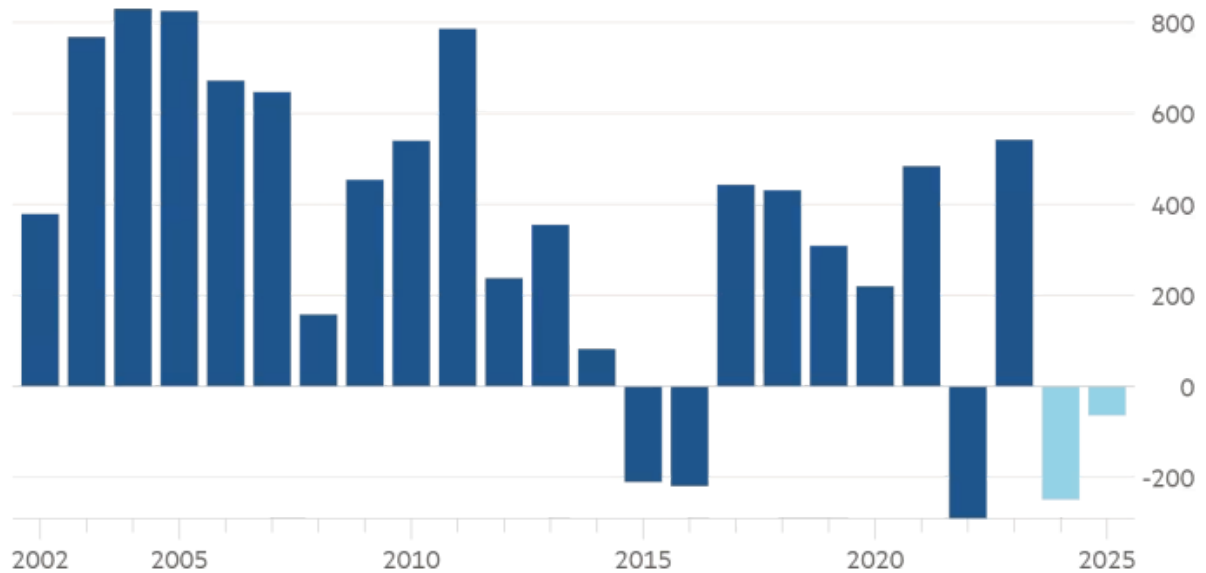
Source: The Energy Institute Statistical Review

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The Deng era did indeed bequeath many challenges. Some of the blame for this lay with the relative passivity of the [Hu Jintao](#) and [Wen Jiabao](#) era. But much of it lies with the inherent tendency towards corruption of a market economy dependent on administrative discretion. Yet Xi's tendency to centralise decision-making has not obviously improved matters. It risks creating paralysis or overreaction: failure to shift fast enough from reliance on real estate is an example of the former; failure to relax Covid lockdowns in time is an example of the latter. Management of a politically-driven economy with multiple goals is just more difficult than of one with the single goal of growth. Xi's assertive policies have also worsened relations with western policymakers.

## China's emissions are forecast to shrink in 2024 and 2025

Annual change in emissions from fossil fuels & cement (mn tonnes of CO<sub>2</sub>)



2024 & 2025 = forecasts

Sources: CREA, Carbon Brief

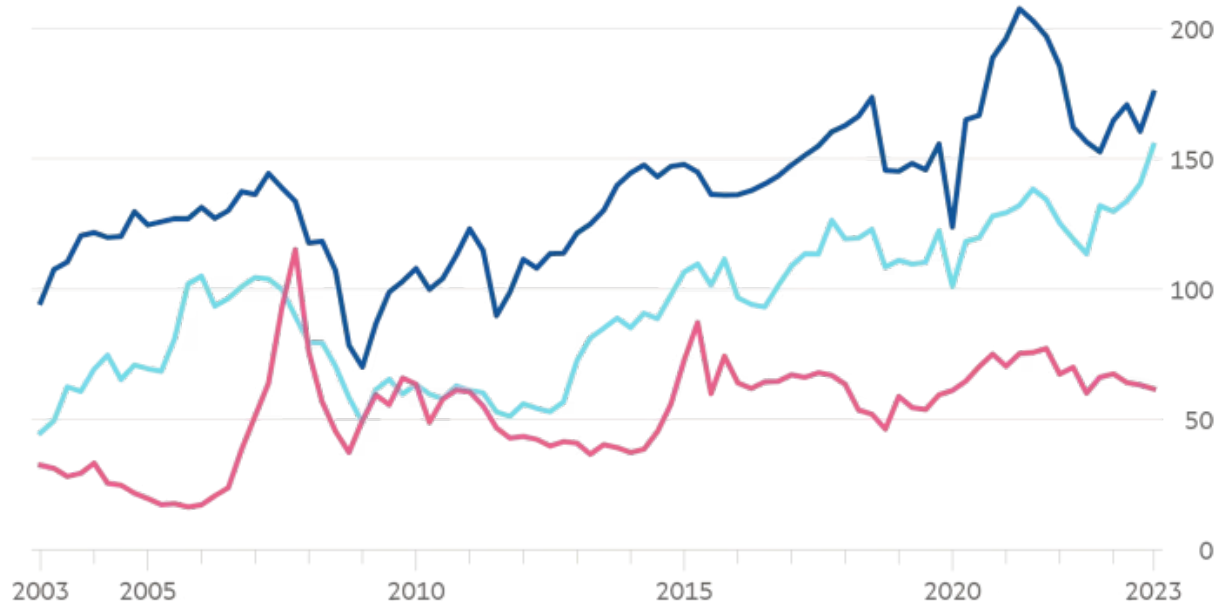
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It is quite possible, then, to see what is going on as largely an attempt to tackle the difficult legacies of the Deng era in what is also a far more complex world environment. It is also possible to argue that Xi's reassertion of party control is perfectly rational. The alternative of moving towards an independent legal system, with entrenched property rights, and a more democratic political system was far too risky. In a country of China's size and level of development, it could have created chaos. Xi's conservative alternative must look far safer even if it might kill the economic goose that has been laying those golden eggs.

## The value of China's stock market has stagnated relative to GDP

Stock market value as % of GDP

— US — China — Japan



Sources: WFE, Haver Analytics

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When considering the prospects for China, one should not focus mainly on the [list of obvious problems](#) — falling property prices, excessive debt, excess savings, an ageing population and western hostility. All these can be dealt with by a country with China's human resources and growth potential, even if with difficulty.

The bigger issue is whether, in the centralising, cautious and conservative era of Xi, Deng's move from stagnation to explosive growth is doomed to reverse back into stagnation. If people come to believe that the dynamism of the recent past has been lost for good, then there is a risk of a downward spiral of disappointed hopes. But the force of 1.4bn people wanting a better life is extremely powerful. Will anything be allowed to halt it? The answer, I suspect, is still "no".

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