

## **China's Economic Transition and the Identity Crisis of being Neither Home-Grown nor Western Model-Inspired**

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### **Abstract**

*This paper examines China's transition from capitalism to communism to capitalism to sustain communism. The phenomenon of communist liberalism enabled China to attract foreign direct investment and open up its economy to the rest of the world. The paper shows that China's transition is eclectic and was neither a straitjacket home-grown economic model nor a completely Western capitalist model. It examines the role played by various government enactments such as labour regulation, property rights, the role of state-owned enterprises, and the Communist Party to mark the triumph of communism in China. It adopts the qualitative method of research which involves a close reading of extant literature and the application of historical hermeneutics to data analysis.*

*Keywords: China, communism, capitalism, economic transition, home-grown*

### **Introduction**

One of the most important events in modern economic history is China's transition from a state-planned economy to a market-oriented economy starting in the last two decades of the 20th century. China's transition has produced many interesting contrasts to the experiences of transition in Eastern Europe and the former Soviet Union. When the transition started in EEFUSU, most economists in the West favoured economic stabilization, price liberalization, and privatization reforms which they considered to be

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necessary for a successful transition to a market economy. From 1949 until the reform era, China adopted the communist model of industrialization. One of its unique features has been the continuation of communist party leadership at the same time carrying out substantial economic reforms. The China Communist Party (CCP) was in power before and during the process of economic reforms and therefore, played a significant role in directing the reform agenda (The Open University, 2006, p. 118). The period of officially designated “transition to socialism” corresponded to China’s first five-year plan from 1953 to 1957. The period was characterized by efforts to achieve industrialization, collectivization of agriculture, and political centralization.

It is against this backdrop, that this paper examines China’s economic development dynamics that tilt towards capitalism in the context of whether it was a home-grown economic model or rather inspired by the Western economic model; or whether it was a new hybrid model which was a veritable blend or mix of the two or dual economic models.

This investigation into China’s unique economic development model that emerged after the collapse of its second socialist plan is carried out within the context of its labour regulation, property rights, the role of state-owned enterprises, the role of the state and the changing roles of the Communist Party. It contends that from 1979, Chinese economic reforms were a departure from Soviet communist methodologies; but still, they helped preserve communism in China. They also created an economic identity crisis for China that the Asian giant has had to live with ever since. The foreground knowledge of communism in China and the capitalist reforms were used as a parameter for understanding China’s foray and a giant leap into the Global South and beyond. It also aids our understanding of China’s economic concord and discord (trade war) with the United States in the twenty-first century.

### **A Brief History of China Before the Reforms**

China is one of the oldest four ancient civilizations in the world. Historically, after the Egyptian civilization, Mesopotamian and Indus

Valley civilizations, the Chinese civilization was the next civilization that provided humanity with a continuous basis of cultural development. This was particularly so as other ancient civilizations before it, fell to either climate change or were assimilated and plundered. The World Economic Forum (2019) reported that many of the world's ancient civilizations were devastated by the effects of their locally changing climate. They included the Mayan civilization in Mesoamerica whose 3000 years reign was brought to its death knell by an extended drought that ruined the crops of the people and cut off their water source; the Mesopotamia civilization that was ended by a 300-year-long drought; while the ancient Egyptian civilization was plundered and assimilated into the Western civilization. This leaves the Chinese civilization as the only ancient civilization that has survived over time and space to intersect with the modern era of human development. Hence, the civilization of China that originated in the Hwang Ho and Yangtze River basins is today estimated to be over 5000 years old (Advantour, n.d.).

The ancient Chinese civilization, according to the National Geographic Society (n.d.), is directly responsible for the rich culture found in modern China. This means that the modern Chinese civilization was a continuum of the ancient. It is the only surviving cultural bridge between the two eras. Thus, Joshua Mark (2012) observed that ancient China is the oldest extant culture in the world. For several centuries, it has remained the dominant civilization in the East Asia. Several dynasties ruled China from the Xia Dynasty in 2070 BC to the Qing Dynasty, which ended with the emergence of a Republic in 1911.

The Republic of China existed till the victory of the Communists over the Kuomintang (Capitalist) group in 1949. Before 1949, China was engulfed by violence, civil wars, invasions and activities of warlords. From 1949 until it embarked on the “gradualist” reforms to a market economy in 1979, China experimented with different models within the communist mode of production and distribution. There is no consensus among economists about the role of that era in the outcomes observed in contemporary times. Some believe that the “foundation” for the recent

performance was laid during the communist era, while others see those decades as lost years for China (Soludo, 2006, p. 6).

Before the reform, China was largely an agrarian economy and its society was largely rural with slightly over 60% of its population living in rural areas. Yao Yang (2019) observed that the average Chinese adult lived on an income that was barely above one-fifth of the world's poverty margin. Hence, to reverse the economic backwardness of China that was responsible for this, the Communist administration adopted neo-classical development strategies that encouraged savings, high investment, human capital development, technological advancement, and industrialization. Furthermore, Dwight Perkins (2020) pointed out that the Communist Party organized the Chinese economy differently from the rest of the market economies across the globe. It abolished household agriculture and shifted to the collective agriculture system to increase raw material production for industrialization. This new agricultural policy made it possible for the Chinese to become the development partner of the rural farmers by supplying the industrial the state inputs and outputs needed to expand farming through the State Planning Commission (SPC). Spotlighting the economic development essence of these measures, Cheng Chu-Yuan (2021) noted that they were geared towards transforming the underdeveloped agrarian economy of China into a modern industrialized economy. However, during this period the USA Congressional Research Service Report (2019) revealed that China's economic policies to some extent before 1979, made the country very poor, stagnant, centrally controlled, inefficient, and relatively isolated from the rest of the world. Hence, to unlock and harness the full economic potential of China to address the imbalances in the Chinese economy, the Communist government initiated a series of non-Soviet type and non-Western model economic reforms. During this reform period, China made conscious efforts to create a manufacturing base for its growing population (Soludo, 2006, p. 6). In 2015, the Chinese government made innovation the top priority of its development planning. This led to the conception of the "Made in China 2025 Initiative" which sought to make all the products

consumed in China by 2025, products made in China (Congressional Research Service, 2019). The prospect of this initiative lies in the fact that by 2015 when it was initiated, China has been able to lift more than 800 million of its citizenry out of poverty (CRS, 2019, p. 1).

### **The Reform Era**

The Communist reform and economic recalibration in China began fully in 1979. It was marked by a series of experimentations to improve means of production, reduce waste and spur development with varying levels of success. The reforms adopted reflected the initial conditions of China. First, GDP growth was about 12.3% that year and hence did not give an impression of a total failure of the socialist regime. It started off reforms in a rather gradualist mode, still admiring the socialist model and without any clearly-spelt plan to quickly transit to a market economy (The Open University, 2002, p. 52). However, the successes recorded by the non-state sectors raised public sentiments for more reforms towards the market. In other words, it can be fairly argued that China embraced the market economy reforms not out of deliberate plans, but learned through experience that it had no better alternative. Privatization of state enterprises followed, salaries were freed up and foreign investment was encouraged. Beginning in 1990, six Special Economic Zones were set up to attract foreign investments, among them was the Shanghai Pudong Economic Zone.

In the agricultural sector, the Contract Responsibility System was introduced through which farmers were authorized to sell their surplus produce in the market for profit. Its transition to a market economy has intensified with success, and its aggressive export orientation culminated in accession to the World Trade Organization in 2001 (Soludo, 2006, p. 7). Some markets were liberalized and permitted to sell at market prices, but sell to state firms at administered prices. Our discussions on reforms in China are subsumed in the following sub-themes:

### **Labour Regulation**

In the wake of the 1949 Revolution, the China Communist Party created a dual economy in which workers were confined to either the urban industrial sector or the rural agrarian sector. During the period, China pursued a socialist model of transition towards an industrialized economy rather than market allocation. In the reform period, all these were altered, as markets began to develop alongside the planned economy, and an increasing number of peasant farmers began to drift from rural to urban areas and from agricultural to industrial activities within rural areas. New forms of enterprise, based on different forms of ownership, developed in the urban and rural sectors. These reforms were meant to accelerate the pace of the Chinese industrialization process; and to eradicate the market forces from creating acute imbalances and supply bottlenecks in the Chinese economy (Chu-Yuan, 2021; Yang, 2019; Perkins, 2020).

The adoption of the socialist system of government geared towards the industrialization of the economy led to the dramatic growth of the urban modern sector which created demand for both urban and rural workers. Newly established enterprises employed a pool of unemployed rural folks through the labour allocation measures of the government giving rise to a great surge in the urban population. In the years, 1952-1957, there was a population increase from 10.6% to 154% according to China's Statistical Yearbook of 1993. But this was not to endure as an excessive drive towards industrialization led to utter neglect of agriculture leading to low output and eventually famine. This reverse in agriculture production compelled the Chinese government to compel about 20 million workers back to their rural homes to reduce urban food demands and increase labour input to agricultural production. So, between 1961 and 1962, the government embarked on intense regulation of rural-urban drift which led to an increase in food production (The Open University, 2002, p. 69).

### **Privatization of State-Owned Enterprises**

China's state-owned enterprises were given preferential treatment that was unrecognized in the constitution. In the new economic development vision

of China that emerged from 1979; the government started deregulating its economy gradually to open it up to the rest of the world (CRS, 2019). The deregulation of the Chinese economy as a way of attracting Foreign Direct Investment (FDI) through the establishment of private enterprises was not pursued as a Western- IMF economic Structural Adjustment Programme, rather it was a domestic developmental imperative birthed by the 1982 Constitution of China that allowed private enterprises in China to exist side-by-side with the state-owned business concerns. While privatization created new employment opportunities; the China Communist government took steps to ensure that by deregulating the economy, its communist identity was not lost completely. The government ensured that working for state-owned enterprises was attractive and lucrative. Hence, Chinese people working for the government were given substantial social welfare provisions in education, health, child care and a package of rights (The Open University, 2002, p. 29). During the privatization exercise, the state-owned enterprises were repositioned to enable them to compete with emerging private enterprises. Despite that, the privatization exercise ushered in the emergence of efficient privately-owned enterprises.

In 1979 when the Chinese Communist Party launched economic liberalization, it faced a lot of challenges. First, there was the problem of how to institute a legal framework that would protect property rights, ensure market confidence in the party's commitment to reforms and still retain its hold on power. The second challenge was how to tackle the different results of rapid development without jettisoning the one-party rule (*The Economist*, 2004, p. 6). It should be emphasized that the partial deregulation of the Chinese economy for private businesses to thrive gave the Chinese economy its current identity crisis.

### **Property Rights**

Property rights were the herculean task only a few one-party governments have succeeded in managing and the two tasks of the institution of a legal framework to protect property rights and provide solutions to the consequences of rapid development. This is because the rule of law, the

foundation of a market economy, is an aberration of a one-party regime. Despite these seeming obstacles, the Chinese government developed a strategy of opening up the county-side and passing commercial laws, while allowing no challenge to its power. The CCP gave recognition to private property rights and entrenched former President's Jiang Zeimin 'Three Represents' Theory, which acknowledged entrepreneurship (*The Economist*, 2004, p. 6). The constitutional review by the CCP was an example of such a strategy meant to provide stronger protection for private property. It appears to be a positive step, but the CCP had, not in the distant past, persecuted private property owners and considered it as an alien Western concept.

To sustain the tempo of economic reforms, the Chinese government liberalized the economy and made the judicial process independent and effective. There are obvious doubts as to the sincerity of government in this respect. This is because institutional changes are pre-conditions in making the provisions about private property rights meaningful since government restrictions had outlawed many legitimate economic activities. The government's control over the judiciary also casts doubt on the judiciary's ability to determine fairly which private property is legal and which is not. Another grey area is the party's willingness to allow constitutional restriction of its power which involves the institution of an independent review process, widening of elections and reduction of the party's control of the judiciary.

### **The State**

During the reform, the complex nature of the exercise of political power changed remarkably. Leaders at all levels were replaced, but the CCP focused on achieving results and thus shifted legitimization away from ideology to practice. Unlike Japan and South Korea, which transferred ownership largely to the private sector, China's communism had left major enterprises in the hands of the state. Her weak financial system led to the preponderance of dominance of large state-owned corporations, which received credit allocation of 90% rather than private firms (Kynege,



2002, p. 4). The state-owned enterprises were given preferential treatment in the form of listing on the stock exchange, tax subsidies and so on. In theory, there were trappings of a centralized economy, but in practice, China lacks a concrete central control mechanism. The political system gave enormous power to party officials at the provincial and municipal levels, who neglected the entrepreneurs while allocating resources to the inefficient state-owned industries.

### **The Communist Party**

The CCP) was poised to take risks in the process of directing capitalist economic development. This involved the closure and privatization of inefficient state-owned enterprises leading to the loss of millions of jobs. By embracing the middle class, irrespective of ideology, the party was acting out of necessity because the continued allying itself with inefficient state-owned enterprises, debt-ridden state banks and corrupt bureaucracies would endanger its survival (Kynge, 2004, p. 6). The CCP's role has been that of activating and monitoring the reforms as well as initiating ideas and coordinating the industrialization process. The precise nature of this transition remains unclear as the process is gradualist and still ongoing.

Economically, China has moved towards the entrenchment of capitalism, but there are no serious political reforms currently on the party's agenda. Many economic historians have argued that significant changes may take place when a new generation of leaders may have emerged (Soludo, 2006, p. 7). However, optimists contended that the leadership's conservatism is tactical and does not necessarily signify a rigid opposition to economic reforms. The drive towards democracy is far-fetched as the Chinese government's budgets are not transparent and therefore lack accountability. The CCP legislature passed the budget without amendment which is contrary to democratic rule. Thus, making the state budget process open for public scrutiny would enhance the enthronement of democratic governance at the grassroots.

China is gradually practicing and/or adopting a hybrid economic development model that is a mixture of a communist political system

and elements of a market economy with private and public ownership of means of production existing together. China's government has considered its industrialization process as consistent with its socialist ideal. The government envisaged the adoption of a long period of market-based industrialization as a necessary pre-condition towards socialization. This prediction made the party leadership develop the concept of a 'socialist market economy' as a way of theorizing this process. The relative success of the Chinese economy as compared with the record of Russia since 1991, where production was halved in seven years, prompted Nolan to argue against the 'gradualist' approach adopted by China, but favoured the rapid Russian reforms (Nolan, 1995, pp. 318-319). Critics of China's reforms, however, claim that the reform process has escaped party control and an unequal and exploitative capitalist framework is being established in China, whatever the rhetoric adopted by the government (Smith cited in Thomas & Allen, p. 319).

The political and economic reforms did not mean that China wanted to restructure its single-party system. It still frowns at opposition and direct elections for senior jobs. Whatever the leadership may claim the reality of the changes points to the fact that features of a capitalist society are being created. The signs from recent developments are there to show that China is ready to embark on vital reforms in its Communist economic system. Though the process is slow, cautious and gradual, it is too early to predict, but it can be inferred that it will be a hybrid of both communist and capitalist economic models. Therefore, it should be noted that James Kynge was hasty in his predictions on China's future when he predicted that China would eventually adopt a capitalist economic system. The assumption that the 1949 Revolution would save China was illusory because fifty-three years after, it was the bourgeoisie rather than the communists that lifted the nation into the ranks of great powers (Kynge, 2002, p. 4). Similarly, Prybyla was sceptical about the existence of a precarious balance between two halves of this hybrid economic model. He concurred that: "sooner or later (probably sooner) either plan

and centralized social property, or market and private must prevail and dominate the system” (Prybyta cited in The Open University, 2002, p. 160).

### **The Reform Challenges**

China’s path to greatness was set on course by the Communist Party-led reforms however, despite the enormous economic progress China had made the nation encountered many challenges. The challenges made many scholars to question the sustainability of China’s transformation. One of the most disturbing and perplexing challenges of the Chinese economic reform was the creation of an economic identity crisis. The question of whether China is still a communist state modelled after the Soviets or now a capitalist state modelled after the West is now rife. There is also the lingering question of whether the reform of State-owned enterprises birthed the high levels of persistent unemployment rate, increasing corporate governance issues, and the treatment of non-state enterprises plaguing China. There is the issue of financial liberalization in China and the concerns it generated regarding the continuity of reforms in the banking sector, insurance and financial sectors, exchange rates, interest rates and credit availability. To make trade liberalization feasible and sustainable, there will be a need for the adoption of effective laws under international practices to address growing trade relationships and new economic arrangements. Furthermore, issues relating to rural and urban poverty as well as income inequality associated with China’s comparative advantage due to shifting away from agriculture remain to be resolved (Soludo, 2006, p. 8).

### **China as a Modern Political Economy Miracle**

Globally, the admiration and respect of the People’s Republic of China stems first from the country’s modern political economy miracle, it has been able to overcome many challenges to become one of the global economic giants in the contemporary world. China had attained a level of economic development that rivalled American hegemony. The reforms succeeded in reorienting and repositioning China’s communism towards

capitalism. China has become a phenomenon among the comity of nations as its experimentations with capitalism have transformed the state into an economic and political enigma. China has moved from being a third world country to a first world economy in the shortest space of time ever imaginable and experienced in world history. For instance, while it took the USA approximately 198 years, from 1776-1914 to transform and re-enter the international system as a potent and hegemonic political and economic force; China achieved this in less than 70 years (Harrison & Palumbo, 2019) from 1911 when China became a Republic and isolated itself from the world to 1979 when it re-entered the world stage.

In 1949, when the Communist Party came to power in China, the country was very poor with no trading partner and diplomatic relations. Communist China was underdeveloped and backward and relied more on self-sufficiency. It practised a peasantry or mono-economy and this informed Mao Zedong's decision to rapidly industrialize China through what is known as the "Great Leap Forward". This effort did not yield immediate rewards as the country suffered more setbacks in the 1950s. From 1959 to 1961, China lost about 10 to 40 million people out of its population to famine and food shortage (Harrison & Palumbo, 2019). This was worsened by the Cultural Revolution which was launched by Mao Zedong to cleanse the Communist Party of his rivals. But this revolution, paradoxically ended in destroying much of China's social fabric up to 1976. However, the nation started getting it right from this period when new reforms spearheaded by Deng Xiaoping started bearing fruits. Under these reforms, peasants were granted rights to farm in their lands and this helped to improve the living conditions of the people and lessen food shortages. What would appear to be the game changer for China was the re-establishment and restoration of diplomatic relations with the USA in 1979. The USA's attempt to exploit the Chinese cheap labour and low cost of rent paradoxically contributed to the development of China. This implies that more US capital and investors moved into China and expanded its economy. This was followed by landmark market reforms that opened up

new trade routes and investment flows to China culminating in pulling hundreds of millions of people out of poverty (Harrison & Palumbo, 2019).

Arising from the opening up of China's economy to the rest of the world, the exports of the Asian giant increased from \$ 10 billion (USD) in 1978, which was less than 1% of global trade to \$25 billion (USD) by 1985; and by the 1990s China's export rose to \$4.3 trillion (USD) and the country became the world's largest trading nation in manufactured goods (Harrison & Palumbo, 2019). China's newfound economic prosperity is attributed to its political stability, and strong and visionary leadership for the formulation of new policies and programmes, thereby making China to become the new bride of the world. Chinese governments since 1978 encouraged the formation of rural and private enterprises, liberalized foreign trade and investment, reduced state control of prices of some commodities, and invested massively in the industrial development and education of its workforce (Hu & Khan, 1997).

China's political investment in its labour force led to a sustained increase in national productivity due to workers' efficiency, and this became the catalyst of the country's economic boom. Hu and Khan (1997) observed that from 1979 to 1994, productivity gains accounted for more than 42% of China's economic growth. It overtook capital as the most significant source of economic growth. Therefore, labour investment, (human capacity development) as opposed to the traditional view that capital is the engine of economic growth and development was the secret that Chinese leadership unlocked for the rest of the world. In 2014, labour investment enabled China's GDP to surpass \$ 10 trillion (USD); a growth which enabled the country to move from being the 15<sup>th</sup> largest economy in the world as of 1978 to the 2<sup>nd</sup> largest global economy. It is pertinent to add that by this growth, China also became the producer of 15% of all global produce making its per capita income rise from \$220 (USD) in 1978 to \$8000 (USD) in 2015 (Yanbin, 2016). Furthermore, through increased productivity and foreign investment, the economy of China became intricately linked with the rest of the world. Chinese exports and investment spiralled over \$118 billion (USD) and China became one of

the biggest contributors to the widening of the global economy. By 2015, China was responsible for 25% of the development taking place across the globe (Yanbin, 2016).

### **Beyond Communism: China's Foray into the Global South**

Modern Chinese international relations intersect seamlessly between communist-oriented states and states that are neck-deep in Western capitalist orientations and practices. It could be noted that while China has maintained its ties with communist-oriented states of Russia, North Korea, Cuba, and Vietnam in the 21<sup>st</sup> century; the country's foreign policy has gone beyond communism. China has successfully dismantled virtually all its communist economic obstacles and built new liberal relationships with the Global South. However, while the Chinese economic system has not become mixed; it is now more open than closed to the rest of the world. China's foray and inroads into the Global South are some of the clear manifestations of this development. China's foreign policy of international economic liberalism around which China's relations with the Global South revolves, is not driven by the communist principle of welfarism and equitable distribution of resources, but anchored on the imperative of profiteering which is the hallmark of capitalism. While communism remains China's ideological foundation, its shift towards capitalist tendencies was circumstantially determined. China's need to survive and flourish side by side with other nations of the world was due to the triumph of globalization, advancement in information communication technology, political stability and internal economic repositioning of the country. These factors were critical for retooling Chinese communism away from economic closure to the rest of the world to an open economy. By unlocking and fully harnessing its economic potential, China was able to break into new frontiers that enabled it to attain the hegemon power status in the international system. This new status of China as a new hegemon prevented the US and her Western powers from isolating China economically and this made her make stringent efforts to reduce the Western spheres of influence across the globe.

China in the twenty-first century is the biggest trading partner of countries in the Global South. Chinese goods and capital through loans and grants for infrastructural development are increasingly flowing into Africa, Asia, the Middle East, and some parts of Latin America than ever before. Since becoming a hegemonic power, China has been committed to developing its South-South relations and cooperation through bilateral and multilateral mechanisms (Jiang 2021). There was the China-Africa Cooperation Forum established in 2000. This economic relationship with African states paved the way for Beijing to join the World Trade Organization (WTO) in 2001, and to gain access to other developing world. Consequently, in 2003 China established the China-Portuguese-Speaking Countries Economic and Trade Cooperation Forum; the China-Arab Cooperation Forum in 2004; the China-Caribbean Economic and Trade Cooperation Forum in 2005; and the China-Pacific Island Countries Economic Development and Cooperation Forum in 2006 (OECD, 2012). According to Michael Schuman (2023), China's attitude towards the Global South was informed by the fact that the Chinese people viewed themselves as fellow travellers with the people of poor nations around the world. Hence, China could be seen as pursuing a foreign policy of sympathy towards post-colonial states in the Global South that have been excessively milked by the Western powers during the colonial era.

Understandably, China positioned itself as the balm to heal the colonial wounds and injuries that the Western powers had inflicted on their colonies. To this end, China increased its financial and economic aid to states in the Global South, which it conceives as the poor helping the poor with sincerity and with no strings attached (OECD, 2012, p. 5). This was, especially so, after the global economic and financial meltdown in 2008. Mejie Jiang (2021) observed that during the period, China's capital in the form of loans and investments found their way more into Latin America, where China helped to reposition the energy sector, agriculture, infrastructure, manufacturing, high-tech and information industries. These giant strides helped China to rebuild its reputation in Latin America. This was necessary because by the end of the Second

World War in 1945, no Latin American country, except Cuba, wanted to relate with China. They were all caught in the web of the American “Monroe Doctrine” through which Latin America remained under the sphere of USA exclusive influence. The lack of interest in China in Latin America then was also caused by the American embargo on trade with all communist regimes which discouraged allies of the United States from engaging with China. Furthermore, it was caused by the fact that in 1945 China was a poor developing Third World country that was seen as having nothing to offer to the Latin American world. However, since Chinese aid started pouring into the region in 2008, Latin American countries have become the most dynamic trading partners of China. China values the Global South because of its abundant primary resources and market opportunities which it needs to consolidate its economic growth and development (Jiang, 2023).

Consequently, in the USA and among her allies in Europe and in the Indo-Pacific, Michael Schuman averred that China’s gain in the Global South created a lot of panic. This was due to the understanding that its support of the developing world was conceived to be a critical factor in determining where the pendulum of global governance swung (Schuman, 2023). Hence, beyond Latin America, as China devotes huge financial resources to wooing governments across the Global South the more the uneasiness of the Western governments. Beijing consolidated its presence in the Global South by positioning itself as the new infrastructural development partner of Third World countries through the Belt and Road Initiative (BRI) launched in 2013 by Xi Jinping; and by assuring the countries of the Global South that “China will not do to them what the West did to them” (Schuman, 2023).

It should be noted that in the 21<sup>st</sup> century, China has replaced the USA as the biggest trading partner of African countries. The strategic partnership between China and Africa that started in 2000 with the formation of the China-Africa Cooperation Forum was based on equality and mutual benefit. For instance, in 2000 alone, trade volume between China and Africa reached 10.6 billion UD dollars (Ministry of Foreign Affairs of the



People's Republic of China). Through this strategic economic partnership, according to Eleanor Albert (2017), Africa became the second largest supplier of crude oil to China after the Middle East (supplying 22% of Chinese oil needs, that is, 1.4million barrels of crude oil per day); China became sub-Saharan Africa's major credit provider, a most significant source of Foreign Direct Investment (FDI), and biggest trading partner (IMF, 2023). One-fifth of sub-Saharan Africa's export goes to China; while China is the number one source for importing manufactured goods and machinery in the region (IMF, 2023).

### **Chinese Capitalism and Trade War with USA**

At the turn of the 21st century, China can hardly be construed as a communist country in practical terms. While communist ideology remains strong, the management of the Chinese economy and its international economic relations, capitalist tendencies appear to be the driving force propelling China's international conduct. This means that China has become a communist country with an open economy. The economic openness of China in the 21st century has positioned it as the biggest economic rival of the USA in global governance. This economic rivalry has dovetailed into what is known as the China and USA Trade Wars. This war with the United States is not a violent military struggle; but rather, the clashing of Chinese communist and American capitalist swords. The US-China trade war is an economic war manifested in US tariffs on Chinese goods and Chinese retaliatory tariffs on US exports. It began in the instance of the United States of America in 2018 because of the US trade deficit that the Western powers blamed China for. The US-China trade war was also caused by what the US perceived as China's unfair commercial practices; and the United States' over-investment in China.

Yukon Huang (2021) maintained that the US-China trade war has metamorphosed into the cold war of the twenty-first century. It is driven by different ideologies which, Joe Biden, the United States President, in 2023 explained as a battle between the utility of democracies and autocracies (Huang 2021). Economic relations between the USA and China have not

always been conflictual and problematic, but starting from 1979 when the United States established diplomatic relations with the People's Republic of China down to 2001 when China joined the World Trade Organization, trade relations between both countries grew exponentially (Siripurapu & Berman, 2023). It started as a mutually beneficial international relationship and since 2001 it grew to become the United States' largest export market; the USA also grew to become China's largest export market. Furthermore, the China-USA economic relations benefitted the US in the form of lower prices for consumer goods and higher profits for corporations. In 2009, the US and China launched the US-China Strategic and Economic Dialogue during the Presidency of Barack Obama; and in 2015 both countries successfully negotiated the Trans-Pacific Partnership (TPP). However, over time, things changed between both trading partners when growth in the USA-China economic relationship was misconstrued by President Donald Trump as the cause of Americans losing their jobs at home due to import competition. American authorities also accused China of pressurizing some American companies to hand over their technology (Siripurapu & Berman, 2023).

Providing further insight into the causation of the USA-China trade war, Siripurapu and Berman posited that China poured subsidies into targeted industries to the detriment of US and other foreign companies. These developments propelled the United States to pull the plug on its relations with China. The US fought the resultant trade war with China through a mixture of negotiation, disputes at the World Trade Organization, increased scrutiny of Chinese investment, tariffs and its counter-industrial policies (Siripurapu & Berman, 2023). This twenty-first-century cold war like the USA-Soviet Union cold war before it was aimed at the economic containment of either of the two Superpowers and to preserve the right of one to global governance. In 2018, the United States under President Donald Trump kick-started the effort to contain China economically by fixing high tariffs and placing barriers to Chinese exports. Sino-USA economic relationship deteriorated further when the Chinese government accused the US of engaging in nationalist protectionism

and took retaliatory actions. Hence, China sanctioned some American companies and increased tariffs on the import of some American goods and services.

This economic tit-for-tat paved the way for the escalation of the Sino-China trade war in 2019. Trump imposed a series of sweeping tariffs on Chinese goods until US tariffs covered nearly all of Chinese imports. The US also adopted other radical measures of countering Chinese trade interests by withdrawing from the Trans-Pacific Partnership (TPP); and by imposing tariffs on hundreds of billions of dollars' worth of Chinese goods. However, in 2020 there was a lull in the US-China trade war with the negotiation of the "Phase One" agreement. This agreement expired in 2021 and led to the re-igniting of the cold economic war between the USA and China (Siripurapu & Berman, 2023). Consequently, taking the US-China trade war to another level President Joe Biden of US, introduced stringent export control measures on computer chips to restrict and weaken China's advanced manufacturing sector. In 2023, President Biden further signed an executive order restricting some US investment in Chinese high-tech industries (Huang, 2021).

### **Assessment of Chinese Economic Transformation**

It can be discerned from the foregoing discourse that China is a society in transition. While the historical roots of Chinese transformation are clear, it is too early to make any predictions on the 'shape' of China's political economy. However, the Chinese political economy has certainly undergone marked liberalization that is partly responsible for the nation attaining a high level of economic development and becoming a Superpower in the international system. Conversely, the degree of China's economic responsiveness to the forces of capitalism has not been accompanied by a commensurate political liberalism. State power remains highly centralized and tight political control over the people by the political elites loom large. China has a high reputation for human rights denials such as freedom of speech and toleration of little political opposition. It was under this apparent totalitarian climate that the imperative of economic

development in China paradoxically engendered capitalist leanings. Chinese transformation in this regard started in a much rather gradualist mode until communism in China was adapted to the internal peculiarities of China instead of the Soviet Union. China's domestication and adaptation of communism and transition to capitalism while still committed to the socialist model is phenomenal. It could be argued that China's economic reengineering towards liberalism was rather circumstantial than a deliberate contrivance. The urge for pragmatic national economic development made China undertake lengthy adjustments to its reform objectives resulting in repositioning it from a centrally planned economy to a socialist market economy. The 'dual-track' approach started with a reform of the urban cities and experimentation with reforming the non-state sectors. Pragmatism, rather than any deliberate plan, was what guided the transformation process.

The outcome of the reforms in China has been impressive and considerable. China has indeed transformed from the disastrous Cultural Revolution to a communist-capitalist economy. Before the reforms, China was a poor country, overpopulated, short of human and natural resources and constrained by an ideology that was hostile to markets. As of 2023, the story was different. Retrospectively, in 1988, China was less than half of Russia in GDP terms, but ten years later, Russia was less than half of China. China has transformed from an underdeveloped country to a middle-income emerging market status. It met its food needs by the 1980s, and is now the world's sixth largest economy with a GDP of over \$1.7 trillion (USD); accounting for about 6% of world trade (Soludo, 2006, p. 8). At present, China is reported to have the highest level of Foreign Direct Investment funding in emerging markets. It stood at US\$52.7 billion in 2002. From the period 1997 to 2002, China accounted for an average of 32.5% of the total developing world's Foreign Direct Investment and 55.5% of that of the whole of Asia. In 2003, about 45% of China's exports were funded by foreign funds and capital. It is the third largest trading bloc after the United States of America and Europe. Its market accounted for more than 20% of the increase in world trade in 2004 (Soludo, 2006, p.

8). Despite these considerable economic transformations, China is facing a lot of challenges as it has a poorly developed regulatory framework. This means that its institutional framework which underpins market rules, for example, contractual law is undeveloped so that patron-client relationships become an alternative mechanism for doing business. So, we are witnessing a fairly unique mix of socialism and capitalism, which could be called a 'hybrid' or 'socialist-market' economic model.

Karl Marx spoke about a transition to communism through a stage of capitalism. Is it, therefore possible that China is going through its capitalist phase on the road to something else? Or, we could just as well argue that China is inexorably moving towards full membership in a globalized, capitalist world. Given the geographical area of China, the size of its population, its past and present civilization and its historical trajectory, it would seem that China's transition does embody some unique characteristics, yet at the same time, incorporate some of the typical manifestations of industrial capitalism. But as regards where this will lead, it is too early to tell. For now, China's economic transformations have attained the enviable position of the second-largest economy in the world and competing with the United States in the pursuit of global economic governance. The modern political economy miracle that China has become today is a veritable source of hope to other Third World Countries that China had left behind.

### **Conclusion**

This paper explores communism in China and the economic transition it underwent to capitalism. Although communism was transmitted to China from the Soviet Union, China developed non-Soviet policies for preserving communism that gave its economy its eclectic identity. Communism began in China in 1921 when the Chinese Communist Party was formed; it was not until 1949 that communism gained its foothold. This implied that when Mao Zedong created the People's Republic of China in 1949, the country adopted a communist ideology in which the state became a centrally planned and controlled society. The Communist victory in the

Chinese Civil War over the Nationalist Party enabled them to take over mainland China and led to the USA severing diplomatic relations with China; and on the international scene, made China a pariah state of some sort. China's reaction was the introduction of sweeping economic reforms that rejigged and reconfigured the communist structure. The Chinese state was economically de-centralized to the extent that private property and economic rights were recognized and allowed in China's communist government. China also pursued rural development, industrialization, and entrepreneurship which allowed small and medium-scale enterprises to exist and thrive. China equally increased its investment in human capacity development leading to increased productivity. It can be contended that by allowing private individual enterprises to thrive, communism in China experienced a pragmatic revolution and recalibration that birthed China as a hegemonic power by becoming the second-largest global economy. The paper found that since 1949, communism has been a mixed blessing to China. It brought China out of international isolation and placed it on the path of repositioning its economy to compete favourably in the global market. This made China the second largest economy in the world after the USA but has paradoxically retained its communist ideology. This paper concluded that communism is transitioning in China which is neither homegrown nor Western model-inspired. It is a pragmatic China's response and survival strategy for overcoming economic underdevelopment, poverty, and international isolationism in the contemporary world.

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