Journal of Economic Issues

ISSN: 0021-3624 (Print) 1946-326X (Online) Journal homepage: http://www.tandfonline.com/loi/mjei20

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To cite this article: Albert Schweinberger (2014) State Capitalism, Entrepreneurship, and Networks: China's Rise to a Superpower, Journal of Economic Issues, 48:1, 169-180

To link to this article: http://dx.doi.org/10.2753/JEI0021-3624480108

Published online: 05 Dec 2014.

JOURNAL OF ECONOMIC ISSUES
Vol. XLVIII No. 1 March 2014
DOI 10.2753/JEI0021-3624480108

State Capitalism, Entrepreneurship, and Networks: China's Rise to a Superpower

Albert Schweinberger

In Memoriam: Albert and I were friends for well over thirty years. I admired his mind and his seriousness of purpose. For him, economic theory and policy were of the utmost importance, not only for their own sake as intellectual challenges, but also because of the roles they could play in making the world a more just and agreeable place. Albert covered a wide range of topics in economics and to all of them he brought a brilliant, illuminating mind, allied with superb technical analysis. He was delightful company and will be greatly missed by his many friends and, most of all, by his loving family, to whom he was devoted.

— G.C. Harcourt

Abstract: From a Western perspective, state capitalism epitomizes one of the main impediments to sustained growth in China. I reached this conclusion without considering the many facets of state capitalism in the Chinese growth process. Having outlined some basic features of Chinese state capitalism in section one, in section two I focus on China's industrial policy to promote innovative entrepreneurship. Two sets of policies have played a key role: (a) the decision to build up a team of national global players, and (b) the decision to "grasp the big and let go of the small" (i.e., to retain big firms in state ownership but privatize small firms). This has resulted in the David-Goliath symbiosis, which is one of the cornerstones of China's economic success. Chinese policy decision-making is driven by networks (between public officials and managers of leading private and state-owned enterprises), the pervasive role of the new elite, and a highly developed patronage system. I describe this in section three. The focus in section four is on public investment in infrastructure to develop the hinterland and overcome the middle income trap. In the final section, I assess the methodology of recent Western evaluations of Chinese policy in the light of the global economic crisis.

Keywords: entrepreneurship, industrial policy, networks and growth, state capitalism

The late Albert Schweinberger was a professor of economics at the University of Konstanz and at Zeppelin University. He expressed gratitude to his colleagues at the University of Konstanz and the Zeppelin University for many comments on a previous draft of this paper. Professor Lu Jun of Peking University also provided many helpful comments. The author was especially indebted to Professor G.C. Harcourt of the University of New South Wales for many insightful comments which resulted in a number of substantive improvements. He also thanked Professor Herrmann Pillath of Frankfurt School of Finance and Management and Professor Peter Lloyd of University of Melbourne for their valuable help in receiving literature. The usual caveat applies.

JEL Classification Codes: H11, H41, O10, O20, O40, P10, P40

According to the recently published and very influential book of Daron Acemoglu and James A. Robinson, *Why Nations Fail?* (2012), sustained growth and development are only possible if a country has the appropriate economic, political, and social institutions. Private property and competition play a key role among the latter. The development of growth-promoting institutions also hinges on the existence of an open, pluralistic political system, with competition for political office (inclusive of institutions). On the other hand, it is a fact that people (vested interest groups) everywhere and always attempt to gain control over ruling institutions and, if successful, will adopt policies to retain their power at the cost of public wellbeing as well as social and economic progress (extractive institutions).

Acemoglu and Robinson argue that China's phenomenal growth cannot be sustained because the political institutions are authoritarian and extractive. Furthermore, the present economic growth cannot lead to inclusive economic institutions and creative destruction unless fundamental political reforms are carried out in the near future.

The authors, however, mention neither the concept of state nor liberal capitalism. Yet, there can be no doubt that, in their opinion, the system of state capitalism is an authoritarian and extractive institution. The fact that state-owned (partially or wholly) companies in China at present make up around eighty percent of the value of the stock market speaks for itself (for more details, see *The Economist* 2012).[1] This confirms the key conclusion of relevant literature (Bremmer 2010) regarding the prospects of long-term growth of the Chinese economy. The Chinese system will fail because there is an inherent conflict between public welfare and the government's desire to retain power. In this paper, I consider several facets of the contribution of state capitalism to Chinese growth, *from the perspective of the Chinese government*, something that Acemoglu and Robinson do not do and is relatively little known in the west. Furthermore, in sections three and four, I gauge the potential of state capitalism to make contributions for many years to come. In section five, I briefly assess the methodology employed by Acemoglu and Robinson (2012), especially in the light of lessons to be drawn from the recent global financial and economic crisis.

This short paper is much less ambitious than the existing literature on China's rise to economic super-powerdom. This literature forecasts the short- and long-term prospects of the Chinese economy to achieve a sustained rapid growth of the GDP, eventually replacing the USA as the leading superpower (for three recent contributions, see Babones 2011; Eichengreen, Park and Shin 2011; and Subramanian 2011). By contrast, my paper focuses on one of the key characteristics of

[1] An interesting international comparison of state control in terms of public ownership and involvement in business operations can be found in OECD's "Economic Survey of China" (2010, 113ff). Not surprisingly, the extent of state control in China is still much higher than in OECD countries (but lower than in Russia) in spite of privatization and significant improvements in the governance of state-owned enterprises.

Chinese economic development: namely, the high degree of politization of economic decision-making.[2] It is indeed intriguing to discover that the literature relevant to Chinese economic development neglects to analyze this characteristic, even though it mentions it. This may be due to the fact that the phenomenal growth performance of the Chinese economy is explained in terms of macroeconomic (aggregate) approaches: (i) simple Keynesian macromodels and (ii) the neoclassical growth accounting approach. On one hand, Keynesian macromodels postulate that the growth rate of the GDP is determined as a result of changes in the components of aggregate demand — consumption, investment, government demand for goods and services, as well as exports minus imports.[3] On the other hand, the neoclassical growth accounting approach, assumes the existence of a well-behaved aggregate production function. Growth in the GDP is due to increases in aggregate factor inputs and a residual, which is imputed to technical or managerial progress and institutional changes.

Both approaches have undoubtedly led to a number of important insights. However, they also have a number of limitations when applied to Chinese economic development. First, they do not address the central role of political, social, and economic institutions in the long-term growth process. Second, they fail to focus on the special characteristics of the interactions between the Chinese government, the new elite, and leading private and state-owned firms in China. Third, and perhaps most importantly, both approaches fail to shed light on what one would regard as a fundamental paradox: The Chinese economy is riddled with distortions and extractive institutions.[4] How can such an economy lift 350-400 million Chinese out of poverty with an average GDP growth rate of nine-to-ten percent over a period of around twenty years?

My argument is that Western economists shy away from an explanation of this paradox because it would necessitate questioning the foundations of standard approaches to political economy. My contribution in this paper is putting forward a novel approach to explain the phenomenal Chinese growth performance by integrating political and economic analyses that take into account the special characteristics of Chinese institutions.

Due to lack of space, I concentrate on a few selected facets that seem to me of paramount importance. Section two of this paper discusses Chinese state capitalism, the industrial policy of the Chinese government, and entrepreneurship. Section three deals with state capitalism and the role of networks in China (e.g., networks between private agents only and between private agents and government officials). Section four

[2] It is often overlooked that economic decision-making is politicized not only in countries with a state capitalist system, but also in democracies. The difference is in the form of politicization. In democracies, the prevalent form is short-term electoral populism.

[3] Keynesian economics has been developed to explain the causes of financial and economic crises in a system of advanced liberal capitalism. However, it seems to me that the system of state capitalism in China has an important bearing on the main tenets of Keynesian economics (and vice versa).

[4] The concept of distortions (market failure) evidently still dominates the theory of economic policy. It makes use of intertemporal general equilibrium models à la Walras or Arrow-Debreu as benchmarks. Regrettably, many articles on economic policy fail to make benchmarks explicit.

examines state capitalism and the potential role of public investment in infrastructure in developing the hinterland, thereby overcoming the middle income trap referred to in relevant literature.

The concept of state capitalism plays a crucial role in my analysis and it demands a definition. The most widely accepted definition of Chinese state capitalism is that it is a political, social, and economic system which combines state power with some policy tools and institutions of liberal capitalism to promote a sustained and rapid growth of the Chinese GDP and economic development (*The Economist* 2012). As far as the economy is concerned, there are two main sources of state power in China: (i) the state ownership of large firms in strategic industries and (ii) the existence of extensive private-public sector networks associated with a highly developed patronage system (Naughton 2008). Two institutions of liberal capitalism are especially relevant to the Chinese economy: namely, the listing of state-owned companies on the stock exchange and the positive attitude towards globalization (China has been a member of the World Trade Organization since 2001). Both reflect the government's concern with the competitiveness of state-owned enterprises.

Readers should note that, in China, the economic growth performance legitimizes state power. There is no democratic political process.[5] Therefore, the Chinese government has a strong incentive to engage in long-term planning and to pursue policies that avoid conflict between the government's desire to retain power and public economic interest. But, no matter how strong the desire of the Chinese government to retain power may be, its actual control over power is rather limited. There are two main reasons for that. The growth performance of the Chinese economy depends, on one hand, on the worldwide demand for Chinese goods and on the relatively high degree of decentralization of political and economic decision-making within China, on the other.

Finally, both China and Russia are countries with a state capitalist system, yet, they differ. In most general terms, the Chinese government has a direct interest in commercial development which is lacking in Russia (Wolf 2009, 16-20). The reason for this is that China extracts rents from commerce, while Russia does it from resources. Rents play some part as a source of patronage resources in every country with a state capitalist system, but they are of paramount importance in China.[6]

Innovative Entrepreneurship, the Chinese National Team of Global Players, and the David-Goliath Symbiosis

This section focuses on the evaluation of Chinese industrial policy. Some economists, such as Peter Nolan (2001) and Dani Rodrik (2009, 2020, and 2011), would argue that China's industrial policy is the key to the economic success of the "People's

[5] Even though there is no democratic process in China, as in western democracies, one should note that among the distinguishing features of Chinese state capitalism is a high degree of political competition in terms of growthmanship (see, for example, Brandt and Rawski 2008, 17-20).

[6] For a comprehensive comparison of Russian and Chinese approaches to economic transformation, see Peter Nolan (1995).

Republic." However, the majority of Western economists would disagree with that assessment. For them, China's industrial policy epitomizes both the government's aim to augment its own power and its failure to lay the foundations of a competitive economy.

It follows from the definition of state capitalism that the success of state capitalism hinges on its ability to ensure sustained rapid growth. To this end, the "People's Republic" of China has learned important lessons from the collapse of the communist regimes in central and eastern Europe, originating in the central planning of production activities. Central planning is incompatible with sustained rapid growth because it stifles and eventually kills off all incentives for innovative entrepreneurship. It also emerged that central planning of consumption industries can only lead to failure due to the volatility of demand and administered prices.

From the Chinese government's perspective, there are three factors, above all, that drive long-term economic growth: (i) the accumulation of knowledge (e.g., technical and managerial know-how); (ii) incentives for innovative entrepreneurship;[7] and (iii) long-run planning by the government to provide the appropriate framework for growth of private and public sectors through a guaranteed access to energy and natural resources.

There is ample evidence that an important target of industrial policy in many countries is the provision of incentives for innovative entrepreneurship. This is the consequence of a global emphasis on growth as the only guarantee of lasting prosperity for humankind (without distributional conflicts).[8] Chinese state capitalism assigns a crucial role to state ownership of firms in this context.

To illustrate this point, I will sketch the development of industrial policy of the "People's Republic" of China in the last twenty years, starting with the "quiet revolution from below" (Nolan 2001). This refers to the mass privatization of small state-owned enterprises during the 1990s. This wave of privatization can be regarded as the realization of another policy slogan: "Grasp the large, let go of the small." The slogan reflects the determination of the Chinese government, having carefully studied the development experience of successful late-coming industrializing countries, to build a national team of large and globally competitive corporations. This plan was carried out in 1991 and 1996. The state council selected 120 large enterprise groups in sectors of strategic importance.[9] The selected enterprise groups have received massive governmental support, including special access to bank finance. On the other

[7] It is well known that entrepreneurship may be productive or unproductive (for details, see Baumol 2010). Available data on China do not provide enough information to determine the extent to which Chinese entrepreneurship is productive.

[8] Generally speaking (see the distributional Kutznets curve), developing countries go through two stages of economic development regarding the distribution of national income. Initially, inequality rises. This stage is then followed by one of diminishing inequality. In the case of China, very recent data suggest that income inequality between cities and the countryside as well as between coastal and hinterland provinces is on the decline.

[9] What is the target function of state-owned oligopolies after the Chinese government reformed its governance of the former? This is a complex issue that is beyond the scope of the paper (for an analysis of closely related issues, see in Harcourt and Nolan 2012).

hand, the Chinese government also adopted measures to ensure adequate competition among members of the national team (for more details, see Nolan 2001).

My hypothesis is that this policy has ensured a steady supply of innovative entrepreneurship. It is based upon the so-called David-Goliath symbiosis (Baumol 2002 and 2010; Norbeack and Persson 2009). The gist of this symbiosis is clear-cut: The major share of breakthrough inventions is attributable to small new firms in the high-tech sector of the economy. The most promising of these radical innovations are then purchased by or licensed to large corporations. The latter specialize in incrementally improving the innovations made by these small firms. There is a considerable amount of empirical evidence for this division of labor in the process of innovation (Baumol 2010).

The industrial policy of China has provided the foundation for the David-Goliath symbiosis in the country. Its stunning success is highlighted in a speech made recently by the president of the German Confederation of Industries, H.P. Keitel, at an exhibition in Hannover (Germany). China is no longer the workbench of the world. Within twenty years, it has become a serious competitor of the German machine-construction industry owing to its breathtaking advances in technology and engineering skills development.[10]

At this point, I should point out that industrial policy is very controversial among economists. It is not clear why the government should be in a good position to pick winners. In fact, there are many case studies that prove exactly the opposite. In that case, will a government have the political courage to admit that it has made mistakes and to close down inefficient firms? In the case of China, the answer is a clear "yes." Between 1990 and 2000, many inefficient state-owned firms were closed down, resulting in massive redundancies of workers. It is a well-known fact that wholly state-owned firms, in virtually every industry, are the most inefficient. Evidently, the Chinese government (contrary to the assertions by Acemoglu and Robinson 2012, or Scissors 2012) seems to appreciate the Schumpeterian concept of "creative destruction."

Readers should note two sets of data that highlight the crucial role of entrepreneurship in the growth performance of China. The first belongs to the Global Entrepreneurship Monitor (GEM). According to GEM (2010, 23), "early stage entrepreneurs" made up 4.2 percent of the adult population in Germany, 7.6 percent in the United States, and over 14 percent in China in 2010. The second comes from the Organization for Economic Cooperation and Development (OECD). In OECD (2010) estimates, the growth of total factor productivity in China is the highest in the world. One of the prerequisites of such high productivity growth is undoubtedly entrepreneurship.[11] Given the extremely high rate of capital investment in China,

[10] In spite of stunning achievements of some enterprises (e.g., Lenovo or Huawei), it remains a fact that the average total factor productivity in China is still far below that of Germany or the US. This is partly due to huge differences in capital intensity of production. As in every developing country, technical progress is very uneven with regard to industries.

[11] Based on the growth accounting approach, the GDP growth rate is imputed to factor accumulations and the growth of total factor productivity (the residual). The latter includes improvements in technology and management techniques due to entrepreneurship.

high total factor productivity growth is indispensable to ensure that the rate of return on capital will not fall (thereby creating a disincentive to invest), with obvious negative effects on growth (OECD 2010).

Entrepreneurship in many of its possible forms is intrinsically associated with access to networks. China is unique in this regard (perhaps with the exception of India). Due to sixty million ethnic Chinese living overseas, mainland entrepreneurs have access to worldwide networks (Rauch and Trindade 2002).

Finally, casual empiricism suggests that the ownership of firms and managerial status per se are much more highly rated by business agents in China than in Europe. Also, entrepreneurs (replicating or innovating) enjoy a very high social standing in China compared with many other countries (for a theoretical analysis, see Benz and Grey 2004).[12]

Networks, the New Elite, and State Capitalism in China

To assess the Chinese long-term growth prospects, I now focus on an evaluation of two institutional settings of human exchange that characterize American liberal capitalism and Chinese state capitalism respectively. These are the Anglo-Saxon model of market, on one hand, and the existence of extensive social and economic networks, not only between managers of leading private or state-owned enterprises, but also between managers and government officials in China, on the other hand.[13]

An evaluation of the Anglo-Saxon model of market is very topical in light of the current economic crisis. There is now a general consensus that the trigger for the crisis was securitization. Securitization turns a long-term personal banking relationship into an impersonal market relationship — the buying and selling of securities backed by loans. The declared aim of securitization has been a transfer of risk from banks to investors — meaning the spreading of risks. This has had disastrous consequences because it made risk management for investors exceedingly difficult. In a nutshell, securitization starkly exposed the limitations of the Anglo-Saxon model of human exchange: namely, its implicit assumptions of public (symmetric) information, a complete set of forward markets for all goods and services, no risk or uncertainty, and the assumption that there is enough competition to constrain the pursuit of self-interest by all market participants.

In light of the above, my hypothesis is that the existence of extensive social and economic networks will confer (other things being equal) upon the Chinese economy a significant competitive advantage in the long run relative to the U.S. economy. The importance of relational contracting in China can hardly be overestimated. Networks of relations are a widespread socio-cultural phenomenon that is unique to China. The efficiency of institutional settings of human exchange can be assessed in terms of

[12] It should be noted that, recently, young graduates, once risk-takers, now want to work for the government. It remains to be seen whether this is only a temporary tendency.

[13] Readers should note that the following analysis of the comparative efficiency of networks and markets only focuses on one facet of a gargantuan issue. To the best of my knowledge, there is no comprehensive welfare analysis of networks versus markets (but, see Jackson 2008 and Rauch 1999).

transactions costs. In a world of information asymmetries, risk and uncertainty, and lack of forward markets, social and economic networks have two decisive advantages: the exchanges are personal and based on long-term relationships. This leads to the establishment of trust. The latter has no role in an Anglo-Saxon market, whereas it is an intrinsic feature of relationship networks. Hence, transaction costs are lower in an institutional setting based on networks, other things being equal.

While the role of networks in economic interactions between private agents is important in China, the role of networks in public-private relationships is arguably even more so. This follows from the pervasive state ownership of firms in virtually all industries in China. The long-term prospects of a sustained GDP growth crucially depend on the efficiency of state-owned enterprises. I am, of course, aware of the fact that I am opening a Pandora's box. For reasons of simplicity, I shall only be concerned with the internal efficiency of firms under the Chinese state capitalist system and focus on the influence of the relationship between managers and public officials on internal efficiency, disregarding such factors as industry competition or government regulation.

Allowing for a divorce of ownership of firms from control, the key issue is that managers run companies to suit their own short-term interests rather than the long-term interests of owners or customers. This issue has become extremely acute in the course of the financial crisis build-up (recall the excessive lending in the subprime mortgage market). Ian Bremmer (2010) refers to this as the short-term epidemic of the liberal capitalist system. Evidently, asymmetries of information between owners and managers regarding the running of companies have a crucial role to play. Managers have a significant informational advantage.

Perhaps, the relationship between government officials and managers of state-owned enterprises in China can best be described by a quote from *The Economist*'s (2012, 8) "Special Report on State Capitalism": "[I]f state capitalism allows politicians to shape companies, it also allows companies to shape politicians."[14] State-owned companies in China generally benefit from a high degree of autonomy, professionally trained managers, and a considerable political influence on government decision-making

The relationship of managers with government officials generally involves regular, personal, and face-to-face meetings.[15] More importantly, these relationships are long-term. Public-private networks in China are intrinsically tied to a highly developed patronage system which creates a variety of incentives for long-term

[14] The power of the new elite to influence policy decisions of the Chinese government can hardly be overestimated. The key tenet of the development strategy followed by the Chinese government is clear: Companies are regarded as the driving forces of economic growth because they create income, wealth, and employment. Hence, promoting producer surplus is the key target of economic policy. Consumption and consumer surplus are relatively unimportant. This strategy has one major shortcoming. It almost invariably leads to too much investment in capital and, therefore, to excess capacity in certain industries.

[15] There is empirical evidence showing that leading managers of state or privately-owned corporations alternate between governmental appointments and positions in industry.

commitments on the part of managers (which do not exist under liberal capitalism). Hence, analyzing the benefits of networks characteristic of the economic exchanges between private agents, as described above, can also be applied to the relationships between managers of state-owned enterprises and government officials. Given the inevitable existence of asymmetries of information between government officials and managers, the establishment of trust is essential. This brings more efficiency for a number of reasons, but especially because it reduces (or even eliminates) the need for monitoring the performance of managers.

It is essential to recall that the Chinese government recently announced a fundamental change in its growth strategy. The label attached to this new target is *harmonious growth*. This new target will necessitate major structural changes in the economy. The latter may run counter to ingrained, vested interests of the new elite. This is an issue that China will have to face for many years to come.

From a western perspective, it is preposterous to claim that the new elite and its networks are important building blocks of the phenomenal Chinese economic success. From that perspective, too, the new elite and its networks represent — first and foremost — the breeding ground of China's rampant corruption, which is one of the main characteristics of the Chinese political and economic system.

State Capitalism, Public Investment in Infrastructure, and the Middle Income Trap

I will finally address an issue which is highly relevant to China's prospects of a sustained rapid growth, which has been largely overlooked (except for Eichengreen, Park and Shin 2011). It relates to the development of the hinterland provinces, which represent a largely untapped source of economic growth, potentially for years to come. According to Barry Eichengreen, Donghyun Park, and Kwanho Shin (2011), the eastern coast provinces will reach the middle income trap by 2015 — that means, a per capita income of around $17,000 per annum (at 2005 prices). Therefore, growth will become much more difficult to sustain and will finally slow down, according to Salvatore Babones (2011). This argument assumes that China can be treated as one country. Yet, in actuality, many hinterland provinces are still very far from the middle income trap.

Paradoxically the middle income trap in eastern China may provide powerful incentives for the development of the hinterland. Why? As China's east approaches the middle income trap, the rate of return on investment is bound to fall. If the positive cluster and market access effects in the east are not too strong, this should encourage firms to invest in the hinterland.

One prerequisite for realizing this huge growth potential is an improvement in infrastructure. Therefore, the Chinese government earmarked 36 percent of the fiscal stimulus package in 2008 for spending on infrastructure. The immediate task is the creation of growth points in certain provinces and cities, such as Xi'an, Yinchuan, Lanzhou, Xining, Wuhan, Chengdu, Chongqing, Kunming, Nanning, Urumqi, and Huhhot. Clearly, even if growth slows down in the eastern coastal provinces due to the middle income trap, it does not follow that China's growth rate will decline if the development of the hinterland provinces is successful. Also, the successful development of the hinterland would create a huge market for the goods produced in eastern China, helping the latter to break out of the middle income trap. However, this is by no means a foregone conclusion. In fact, regional development on such a huge scale is a daunting task (as is evident from the experience of other countries).

At first sight, it may seem obvious that the case for public projects of infrastructure provision is compelling. Infrastructure projects have the features of public goods. Therefore, due to free riding, the purely private provision would imply an under-provision. However, this textbook reasoning is of limited practical relevance for two main reasons. First, there are many different forms of infrastructure projects: power and gas, transportation, irrigation, telecommunication, and drinking water. Since, by definition, markets for public goods do not exist, the public authority has to decide which projects to support or reject (given the limited resources) (Cornes and Schweinberger 1996). Second, the cost of financing such projects has to take into account a dead-weight loss if distortionary taxes are used to raise the funds for these projects (Itaya and Schweinberger 2006). There is also the cost of creating incentives to engage in such unproductive political activities as lobbying instead of in improving productivity and competitiveness.

Actually, there is considerable evidence indicating mal-investment in infrastructure projects by provincial and municipal authorities in China recently.[16] This has resulted in a number of non-performing (toxic) assets of banks. Mal-investment in infrastructure projects can also be the result of political competition between provinces and municipalities.

To the best of my knowledge, there is no empirical work that formally explains the contribution of public investment in infrastructure to the growth rate of China's GDP. However, economists agree that in many countries investment for the provision of infrastructure in different provinces is subject to a high degree of politicization. Pranab Bardhan (2010, ch. 4) compares the efficiency of infrastructure provisioning in China and India. He argues that a comparison of public investment in infrastructure in China and India reveals a dazzling difference in favor of China. China, contrary to what one might expect, has advanced in commercializing the operations of state-controlled enterprises. By contrast, the provision of infrastructure services in India has been characterized by a considerable degree of politicization, especially in the form of short-term electoral populism. This has resulted in a huge productivity gap between China and India regarding, for example, the generation, transmission, and distribution of power.

[16] At present, there is a lively debate between proponents of John Maynard Keynes and Friedrich Hayek regarding the role of government in the development process. Following Keynesian ideas, the Chinese government launched a huge fiscal stimulus package in response to the world economic crisis in 2008. Lately, proponents of Hayek appear to be gaining the upper hand. The malinvestment in some infrastructure projects mentioned in the paper has a major influence on the debate.

Concluding Remarks

In this paper, I offered a brief evaluation of the methodology employed by Acemoglu and Robinson (2012). Their extremely comprehensive and impressive analysis of the development experience of many countries and the conclusions drawn from it, are based upon one key assumption: That the results of a historical analysis are relevant for the future. This, in turn, follows from the implicit assumption that the policy environment has not changed. Are institutions, which were growth-promoting before the rise in financial sectors, the emergence of global financial integration, and some monumental technological advances, still growth promoting? Acemoglu and Robinson (2012) do not address this key issue (which is also beyond the scope of the present paper). To my mind, this is a serious shortcoming. Addressing this issue in light of the latest financial-economic crisis and its calamitous global effects seems imperative.

State capitalism, from *a western perspective*, epitomizes one of the main factors that will impede the achievement of sustained growth in China in the long run. This standard conclusion of western literature is reached without a close look at the many facets of state capitalism in the growth process of the Chinese economy. This paper was an attempt to fill this glaring gap. My tenet was that one can make a very good case for reevaluating the contribution of state capitalism to the Chinese economy from *a Chinese perspective* for two reasons: Because of (i) the recent monumental changes in the policy environment in China and (ii) the amazing resilience of the Chinese economy to shocks associated with — what has been dubbed — the global "Great Recession."[17]

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[17] The reader should note that my paper has not focused on the life of the Chinese Communist Party in any detail. This is due to limitations of space. The interested reader may consult the very informative and insightful publication of Eric X. Li (2013), "The Life of the Party," in *Foreign Affairs* (available at www.foreignaffairs.com/articles/138476/eric-x-li/the-life-of-the-party).

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