> History does not provide such supermarkets in which we can make our choice as we like. Every real economic system constitutes an organic whole. They may contain good and bad features, and more or less in fixed proportions. The choice of system lies only among various 'package deals.' It is not possible to pick out from the different packages the components we like and to exclude what we dislike.
>
> János Kornai (1980: 157)

> Forty years of experience of reform and opening tells us: the Chinese Communist Party's leadership is a fundamental feature and the biggest competitive edge of the system of socialism with Chinese characteristics. In military and science and civilian endeavors, in all directions, the Party's leadership is everything.
>
> Xi Jinping (2018a)

> Capitalism is not a rigid system. It has evolved and changed over time, shaped by local history, social pressures, and crises . . . Markets are not self-creating, self-regulating, self-stabilizing, or self-legitimizing. Hence, every well-functioning market economy relies on non-market institutions to fulfill these roles.
>
> Dani Rodrik and Stefanie Stantcheva (2021: 824)

1 Situating China's Political Economy

Institutional and evolutionary approaches to political economy have established that ostensibly stable systems are pressured to adapt to changing conditions or face the prospect of extinction (Crouch 2005; cf. Greif & Laitin 2004; Nelson & Winter 1982). Postwar capitalism, for example, adopted Keynesian principles of "embedded liberalism" (Ruggie 1982) to ameliorate the damaging societal effects of unfettered markets. Neoliberal reforms during the 1980s subsequently downsized welfare states in many advanced industrial nations facing fiscal crises. Likewise, rapid industrialization in the postwar developmental states of Taiwan and South Korea generated structural changes in government-business and state-labor relations that supported their respective transitions to democracy (Wade 1990). Since its founding in 1949, the People's Republic of China (PRC) has similarly adapted its economic model. In brief, the PRC's model has evolved from emulation of Soviet-style central planning to the early post-Mao era's nonlinear experimentation that combined market reforms and privatization with continued state support of strategic sectors – and under Xi Jinping's rule, resurgence of state intervention through a wide range of mechanisms into core parts of the political economy. Each of these shifts reflects adaptations to perceived opportunities and challenges, some domestic and some external.

Throughout these shifts, social scientists have drawn parallels between China's developmental experience and that of other statist economic models such as mercantilism, the developmental state, and state capitalism. Reform-era China has also been compared with post-socialist countries, large emerging market economies, and advanced industrialized countries. More controversially, some observers have referred to Xi Jinping's rule as "fascism with Chinese characteristics" (Stuttaford 2022; cf. Béja 2019). We situate China's experience in the context of these comparative lenses, with an eye to understanding the depth of such parallels, and the degree to which China's model is *sui generis* historically. In particular, while there are apparent similarities with the East Asian developmental model of Japan, Korea, and Taiwan (Amsden 1992; Haggard 1990; Johnson 1982; Looney 2020; Wade 1990), China's model of political economy diverges notably from these developmental states, and includes qualities associated with predation (Lü 2000; Pempel 2021).

Indeed, China's development has presented puzzles that confound conventional explanations. By tracing the evolution of China's political economy, this Element demonstrates how its idiosyncratic trajectory is not easily explained by existing models. China's empirical departures from the expectations of standard developmental theories have fueled multiple research agendas among scholars of contemporary China and demonstrated the need for conceptual innovation. Notably, as China's political economy has evolved, the distinction between private and state ownership has become increasingly blurred, calling for caution when conceptualizing Chinese phenomena in terms derived from fundamentally different contexts.

Given the expanding role of the Chinese Communist Party (CCP) in the economy since the late 2000s, we observe a shift from a more familiar form of state capitalism to a variant that we call "party-state capitalism." Consistent with an evolutionary and adaptive lens on political economy, we emphasize that China's transition to party-state capitalism is not merely a reflection of Xi Jinping's ascent to the country's top leadership position. Xi's leadership style certainly breaks from that of his reform-era predecessors, as the party-state's responses have become strikingly more mobilizational and coercive, often reflecting his personal preferences. Xi's extreme concentration of authority was reinforced at the 20th Party Congress in late 2022, which violated retirement age and succession planning norms by extending Xi's leadership for a third term and stacking the Standing Committee of the Politburo solely with his acolytes. Nevertheless, as commonplace as it has become to attribute China's turn toward party-state capitalism to "the Xi Jinping effect" (Economy 2018; Esarey 2021; Rudd 2022), we argue that the new model has deep roots in developmental trends and debates that predate his assumption of power. Xi's rise coincided with a series of political and economic challenges in the PRC that emanated from within the country and beyond its borders. As such, we contend that explaining China's political economy under Xi requires understanding how certain policy choices were reactions to challenges that predated his leadership. Attending to the role of endogenous (domestic) and exogenous (international) sources of change demonstrates how China's political-economic evolution resonates with other cases analytically, including political and economic changes in postdevelopmental states, advanced capitalism, and economic securitization during interwar fascism. The CCP's emphasis on regime security has prompted seizure of state control in critical sectors, while other firms (e.g., small and medium enterprises [SMEs], basic services, and manufacturing) remain meaningfully privatized.

Yet efforts to strengthen party control over the economy have presented the CCP with new challenges, both internally and externally. Domestically, we explore the implications of recent conflict in state-business relations, including the party-state's antagonism toward large technology firms and diversified conglomerates. These sectors are sites of the CCP's turn to party-state capitalism, which has been accompanied by the elevation of economic affairs to the level of national security. Driven by concerns over risk management and framed in antitrust rationale, party-state efforts to discipline business actors indicate deepening strains between capital and the state. Internationally, we show that China's new model, which entails blurring of boundaries between state and private actors, has produced a backlash from advanced industrialized countries, where new institutions of investment reviews and export restrictions have begun to reshape global capitalism (Farrell & Newman 2021; Pearson, Rithmire, & Tsai 2022).

Overall, the evolution of China's political economy should be examined in the context of dynamics generated by its model over time in interaction with changes in the national economies that constitute global capitalism. We write at a moment in which capitalist societies throughout the world are reevaluating the relationship between politics and capitalism. This Element contextualizes and compares China's experience in adapting to perceived threats, and also illustrates how China's economic transformation has prompted such a reevaluation in other capitalist contexts.

In this study of political economy, our primary focus is the relationship between the Chinese state and economic actors – primarily firms, owners, investors, and entrepreneurs. Changes in the state-business relationship affect many economic outcomes, including basic indicators such as growth, productivity, and innovation. Because these outcomes are also influenced by factors beyond the state's basic political approach (e.g., the rate of capital investment, global economic conditions, and unpredictable shocks (Kroeber 2016; Lardy 2014, 2019), they are not the focus of this study. Two other topics also are largely outside the scope of this Element. First, we emphasize state-business relations as they are experienced by large firms, particularly those most politically salient to China's government. The shift to party-state capitalism that we observe has had less of an impact on the private small and medium enterprise sector, which is also an important source of growth and employment (Lardy 2014; Naughton 2018; Tsai 2017). Second, scholars have demonstrated the importance of subnational governments in reflecting and adapting policy toward economic actors (e.g., L. Chen 2018; Davidson & Pearson 2022; Eaton 2016; Hsueh 2011; Oi 1999; Pearson 2019; Rithmire 2014; Shen & Tsai 2016; Tan 2021). While local officials play a key role in implementing directives of the central government and promoting their own interests, subnational variation in developmental trajectories remains embedded within the broader context of shifts in China's political economy.

2 Classic Conceptions and Models

This Element's focus on "the state and capitalism" has its foundations in key concepts and theories in political economy. While much of this literature focuses on growth, the features motivating our inquiry are the nature and internal dynamics of China's development, and the evolution of its model over time. One of our central themes is that China's trajectory resonates only partially with conventional understandings of economic development. This section lays out basic ideas and frameworks that are relevant for putting China's political economy, and decades of scholarly analysis of it, into the broadest intellectual context. As general approaches to describing and categorizing political economies, the concepts discussed in the following paragraphs are not equally relevant to China, and none fully captures the country's developmental path and present characteristics. But each provides a comparative analytic lens for understanding China's uniqueness and distinguishing its model and evolution from other patterns.

2.1 Capitalism (versus Socialism)

Capitalism has preoccupied some of the world's most influential philosophers, including Adam Smith, Max Weber, Joseph Schumpeter, and Karl Marx. Although each of these theorists offers a distinctive perspective on the concept of capitalism, including its origins, they share several defining features: capitalism is a modern system of economic organization that leverages transactions based on actors' economic self-interest to increase the productive capacities and developmental outcomes of societies. Smith, Weber, and Schumpeter, again, with some differences, shared a normatively positive view of self-organized economic interests that own and direct capital and other resources without extensive oversight by the state. They emphasized the value of entrepreneurship and innovation as contributing to progress in society, even when it involves – in the words of Schumpeter – "creative destruction."

Marx did not see capitalism as the aggregation of individual interests, but rather, as the expression of class interests. Capitalism's unfolding as a necessary stage of history, to Marx, not only produced unparalleled advances in societies' ability to meet their physical needs (through advancements in the "means of production"), but also sharpened class conflict. These structural contradictions would eventually spark revolution, resulting in a new "communist" society that would end alienation and exploitation. Following Lenin and the Russian revolution, China's communist party revolutionaries hewed to the Marxist critique of exploitative capitalist societies and global imperialism, even though Marx himself emphasized developing the means of production to its "highest stage" prior to overthrowing capitalism. Mao Zedong's revolution of 1949, like Lenin's three decades earlier, emphasized the need for a period of socialism, marked by state ownership, to do the work of capitalism in developing the productive forces. In these classic Marxist conceptions, *private versus state ownership* is the hallmark institution that distinguishes capitalism from socialism.

How production actually happens in economies is the focus of a second conceptual dyad, anchored by market mechanisms at one end and government planning at the other. The concept of "markets" is distinct from capitalism, but bundles naturally with it. For neoclassical economists, markets are the selection mechanism that facilitate market entry and exit through competition (Schumpeter 1911). Mediated by price signals, markets organize horizontal exchange transactions among economic actors – producers, workers, consumers, financiers, etc. At the other end of the spectrum is government planning, whereby political agents such as ministers decide who should produce what for whom and at what cost (Lindblom 1977). Goals of planners may or may not be consistent with productivity and growth, as they may privilege other values related to socioeconomic development or political control. An extreme expression of the state-as-planner model severely limits space for markets. Stalin in the USSR strove to perfect a central planning system, which Mao largely adopted in urban areas throughout the 1950s as a model of industrialization (Brandt and Rawski 2022).

The international economy also features in debates over the relative advantages of markets versus planning. In neoclassical economic visions, a country's ability to leverage its comparative advantage in the international division of labor can be a potent catalyst for growth, beyond what is possible within a national economy. During the 1970s and 1980s, the premier postwar international economic institutions of the International Monetary Fund (IMF), World Bank, and General Agreement on Tariffs and Trade (GATT, the precursor to the World Trade Organization) envisioned that deeper integration into the international economy was part of the recipe for economic development. Still, in both critical and some neoclassical theories, exposure to international economic forces can be a damaging source of competition and even exploitation (Bhagwati 2004; Evans 1979; Frieden 2006; Lenin 1916). Mercantilist policies deployed by states to protect national economies from these harms include, for example, subsidizing exports and restricting imports, fostering domestic industries, and manipulating payment systems and currencies (e.g., List 1841).

Political economy as an academic field considers not just how economic functions are carried out, but also the role of the state in these systems. While no national economy operates in a void without state influence, the role of the state varies considerably in scope and strength. The most stringent advocates of market capitalism posit the benefits of a severely restricted "night-watchman state," whereby the state's scope is limited "to protecting individual rights, persons and property, and enforcing voluntarily negotiated private contracts" (Buchanan, Tollison, & Tullock 1980: 9) to avoid statist tendencies to crush entrepreneurship and seek rents. Such classic capitalism presumes that markets are largely self-regulating, and that sociopolitical crises arising from capitalism can be fixed primarily by market forces themselves, as well as by technology and productivity advances. Indeed, technological optimists view the continued evolution of technology as sufficient to resolve deep schisms and inequalities catalyzed by advanced capitalism. Disruptions in labor markets and wages would present short-term costs (Chandler 1977).

A middle ground on the appropriate role of the state, albeit still covering a broad spectrum of functions, recognizes the necessity of arm's length regulation by the state to address market failures such as monopoly and environmental degradation. Even the process of liberalization may entail regulation (Vogel 2018). A more activist state may define areas in which market mechanisms dominate and areas in which it takes an assertive role in directing resources, such as in industrial policy. This middle ground is where we find the "varieties of capitalism" literature, which recognizes differences among political as well as market configurations in advanced capitalism (Hall & Soskice 2001). This influential literature stresses a distinction between "liberal market economies" of the Anglo-Saxon capitalist tradition and "coordinated market economies" of the European tradition. While the state maintained a greater posture in the latter compared to the former, steerage by the state was never considered the main driver of growth and development (Thelen 2012), and is not central to these models.

Returning to the distinction between capitalist and socialist systems, János Kornai (2016) identified the distinguishing characteristics of each, listed in Table 1.

Table 1. Primary characteristics of capitalist vs. socialist economic systems

Primary characteristic	Capitalist system	Socialist system
Ruling political group	Ensures dominance of private property and market coordination	Communist party enforces the dominance of public property and bureaucratic coordination
Dominant form of property	Private ownership	State ownership
Dominant form of coordination mechanism	Market coordination	Bureaucratic coordination

Source: Adapted from Kornai (2016: 553).

The preceding discussion lays out stylized, and sometimes idealized, notions of political economy based on classic scholarship. In reality, politico-economic systems are always mixed (Polanyi 1957). Such mixtures are readily identified in the major theoretical approaches that have dominated study of the political economy of development. While recognizing unique aspects of China's developmental model, the most common frameworks invoked for understanding its reform-era experience are theories of modernization, the developmental state, transitions from socialism to capitalism, state capitalism, and to a lesser extent, fascism. We outline each of these theories in the following sections, highlighting their common attention to "getting institutions right" (Rodrik, Subramanian, & Trebbi 2004).

2.2 Modernization Theory

"Modernization theory" encompasses a broad set of ideas originating in the mid-twentieth century that economic and political development progress in tandem and that economic growth generally leads to democratization. Reasoning from a stylized narrative of the Western experience, modernization theorists identified a set of structural changes associated with economic development, including urbanization, education, industrialization, and secularization, which were expected to craft citizens who would progressively prefer property rights and civil rights (Deutsch 1966; Inkeles 1966; Lipset 1959). Sustained growth and the emergence of a politically engaged middle class in particular were posited to generate demand for power sharing, protection of property rights – and, ultimately, multiparty democracy (Almond & Verba 1963; Przeworski & Limongi 1997). Notably, this process was imagined to be universal: any society that experienced economic growth with market mechanisms and private wealth accumulation would undergo social and political changes that lead to democracy.

Modernization theory met significant criticism. Samuel Huntington argued that economic development and social mobilization could destabilize polities and that stronger governments were better equipped than liberal ones to manage the process of modernization (Huntington 1968). Taking a pan-national view, dependency theorists criticized modernization theory for failing to incorporate global or transnational forces; they viewed underdevelopment not as a function of "backwardness" but rather as exploitation or inhibition of the "periphery" by developed "core" countries (Gunder Frank 1966; cf. Dos Santos 1970).

Despite these critiques, earlier expectations that modernization theory could provide insight for China's reform-era development were understandable: many held that as China industrialized through the introduction of markets and a middle class emerged from an urbanized, growing economy, China would embark on a path of political liberalization and, ultimately, democratize. While addressing the prospects for political or regime change in China is beyond the scope of this Element, we note that many Western observers (Gilley 2004; Guthrie 1999; Lardy 1994) and even some in China (Wang 2009) hoped that modernization theory might correctly predict China's developmental trajectory. Reformers in Beijing relaxed socialist-era restrictions on economic activity to allow private-sector development and open the door to international market forces. Decades of spectacular economic growth through industrialization and urbanization ensued.

Yet, clearly, the CCP did not open up to political competition. Instead, space for political contestation has narrowed considerably over time, contravening modernization theory's expectations. A wide range of scholarship on China's middle class and its entrepreneurial class offers explanations for why these groups have not been advocates for political change, including that they have been incorporated into the party-state and that the CCP enjoys broad legitimacy among the public for its achievements (Dickson 2008; Tang 2018; Tsai 2006, 2007; Shi 1997).

2.3 Developmental State

Modernization theory assumes industrialization under relatively laissez-faire conditions rather than specifying the appropriate scope for states in the development process. Its advocacy, generally, of democratic institutions and enabling of society implies that the main drivers for economic development should best come from outside the state, i.e., from relatively autonomous economic actors. It is against this privileging of a more restrained state, as well as alertness to countries' concerns about exploitation through unfettered globalization, that the "developmental state" literature emerged (Woo-Cumings 1999). Successful strategies of developmental states include drawing on their status as "late industrializers" to leapfrog stages of development, especially in the acquisition of critical technologies, and harnessing statist tools to guide the development process (Gerschenkron 1962). Haggard (2018: 10) notes the influence that Gerschenkron had on the developmental state school:

> It is hard to overstate the prescience of the Gerschenkron essay vis-à-vis the subsequent developmental state literature: the most basic idea that industrialization is crucial to catch-up; that development strategies must be seen in an international context; that specialization might be inimical to growth; that technology, increasing returns, and externalities are central features of industrialization; that capitalism is not of a single piece but shows important variation in latecomers; and that institutions – including the state – play crucial roles in the growth process.

The developmental state literature originated out of efforts to explain the unexpectedly rapid industrialization of several East Asian economies. Japan, Taiwan, Korea, and Singapore all managed export-oriented industrialization in the post–World War II period with a set of institutions that did not conform with neoclassical economic norms (World Bank 1993). Technocratic state agents, typically concentrated in specific economic ministries, "picked winners" by identifying and nurturing sectors and firms through industrial policies, including tax breaks and preferential access to credit (Wade 1990). Such targeted state intervention in the economy promoted rather than prevented growth.

The nature of the state – what provides its capacity – in successful developmental models is the hallmark of the theory. The ideal state in important respects approximates a Weberian-style bureaucracy, characterized by meritocratic recruitment and technocratic expertise, corporate coherence, and sufficient autonomy from societal interests to avoid rent-seeking and capture (e.g., Amsden 2001; Johnson 1982, 1995). Countering the implication of earlier works on East Asia that suggested states were depoliticized because they were insulated from society and politics, Evans (1995) emphasizes the relationship between state and society, in particular the degree to which state actors and structures are "embedded" in society. When network ties, especially with the private sector, are dense enough to provide information useful to policy making, the developmental state is more effective. As Doner, Ritchie, and Slater (2005) succinctly put it, developmental states are "organizational complexes in which expert and coherent bureaucratic agencies collaborate with organized private sectors to spur national economic transformation."

China's reform-era experience shares some commonalities with the developmental state, including a late industrializer's sense of urgency to catch up and concomitant prioritization of economic growth through industrial policy. But on balance, China departs from several key features of the developmental state – to the point that we do not find it appropriate to classify it in the same category.

First, compared with the East Asian developmental states, China's economy was relatively decentralized and lacked a "pilot" ministry, like Japan's MITI or Singapore's Economic Planning Board, that directed development in a strategic and holistic manner. Instead, especially in the early decades of reform, China's development was driven by local governments with strong incentives to pursue investment and growth (Breznitz & Murphree 2011; Oi 1999). Scholarship on China's bureaucracy has emphasized the role of meritocracy and promotion incentives (Ang 2016; Lü & Landry 2014; Shih, Adolph, & Liu 2012; Yang 2004), but few, if any, would describe the Chinese bureaucracy as "embedded" or "autonomous." On the contrary, scholarship has emphasized the prevalence of corruption, though scholars differ on whether corruption has been primarily "growth-enhancing" or distorting (Ang 2020; Lü 2000; Rithmire & Chen 2021; Wedeman 2003, 2012).

Second, China retained state ownership, especially over large firms at the "commanding heights" of the economy. Developmental states generated large, vertically integrated conglomerates (the Japanese *keiretsu* or Korean *chaebol*), but state ownership of firms was not significant. Relatedly, while the East Asian developmental states directed credit toward the most productive enterprises, China's state-owned enterprises have had privileged access to subsidized loans from state-owned commercial banks, while the more profitable private sector has faced ongoing barriers in accessing credit.

Third, most developmental states had limited domestic markets and restricted exposure to foreign direct investment (FDI), while China clearly has a large domestic market and FDI featured prominently in its period of high growth. This combination of FDI and a vast domestic market created a highly competitive ecosystem as domestic players upgraded and foreign firms pursued greater efficiency to compete in China's vast middle market (Brandt & Thun 2010).

Fourth, the developmental states were built on anticommunist efforts, lending ruling parties both a mobilizing existential threat (Doner, Ritchie, & Slater 2005) and access to the markets of Western allies. China's economy also eventually grew with access to overseas markets, but, as we go on to discuss, the Chinese bureaucracy was and is that of a Leninist system and organized to facilitate collective production and consumption.