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State-capitalism and Globalization – a challenge to whom?

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Abstrakt

State-capitalism is an economic system in which governments manipulate market outcomes for political purposes. Governments embrace state-capitalism because it serves political as well as economic purposes—not because it's the most efficient means of generating prosperity. This paper examines the institutional, economic and social combination in which state-capitalism is possible and contributes to prosperity. It is argues that state-capitalism works best under authoritarian rule because there is no constituency to provide for. However, this article also argues that state-capitalism has fundamental flaws.

Keywords: state-capitalism, China, emerging markets, economic policy, economic systems

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1. Introduction

"We are all state-capitalists now" was the title of an article published in 2012 by Niall Fergusson in Foreign Policy. Even if he tries to make a completely different point, it is still a widespread feeling in many western countries that state-capitalism may be the way to go. Germany's new energy strategy ("Energiewende") inhales the same state-capitalistic air than France's industry policy ("entreprises nationales strategiques"). Even such countries with a well-established pedigree of free-marketism like the US and Switzerland are embarking on a state-capitalistic journey. In the US, the public sector accounts for around 39 percent of GDP, in Switzerland, the public sector grew by almost 10 percent in the years 2010-2012 (2012 Index of Economic Freedom by The Heritage Foundation and The Wall Street Journal).

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However, the inverse might also be claimed: capitalism never stopped being state-capitalistic. The British East-India Company, modern-day Korean and Japanese conglomerates or European oil companies always had a state-partnership or some sort of exclusivity contract with a sovereign body. Even seemingly free-market institutions like airlines and banks can somehow be classed as state-capitalistic, at least when central governments or central banks come to secure these "too big to fail" enterprises.

Since this question is raised: Some countries seem to do well with state-capitalism (Japan) whereas others seem to have difficulties with it (Brazil). Might there be different types of state-capitalism? Might there be different recipients of it? Is it possible that this system works well at a stage of a country's development but not at another? This article intends to explore these questions. In a first section, the meaning of "state-capitalism" will be explored, then, it will be analyzed how far state-capitalism works, or in other words, a framework for this analysis will be developed. In the last section, a crucial question will be answered, namely to whom state-capitalism can be a challenge.

It will be claimed first that there is no unique phenomenon that can count as state-capitalistic, second that state-capitalism has its most positive outcomes under authoritarian rule, third that even its best outcomes still can develop into problems and fourth that the real challenge is how to escape state-capitalism. This paper is written from an Austrian-at-large perspective emphasizing the problem of dispersion of information in the markets and therefore the epistemic qualities of the market-actors.

2. State-capitalism defined

Jan Pieterszoon Coen, the Dutch pioneer in colonizing Java wrote bluntly to the directors of the United East India Company in the early 17th century: "We cannot carry on trade without war or war without trade." And so, the nexus between government and business reached its high point during the Opium Wars of the 19th century, when British merchants craving new markets in the Chinese hinterland repeatedly lobbied their country's politicians into punitive assaults on China (Findlay & O'Rourke 2009).

But the US, too, quickly learned from Europe. Nurturing local industries under highly protectionist regimes was normal in by the end of the 19th century. Not only this, mercantilism influenced some presidents: Woodrow Wilson no less than Theodore Roosevelt knew that American goods and capital must urgently find markets beyond national borders. "Since trade," Wilson argued in 1907, "ignores national boundaries and the manufacturer insists on having the world as a market, the flag of his nation must follow him, and the doors of the nations which are closed must be battered down." (Beaudreau 2004: 116).

Following a theme of his time, Wilson sounds as if he wanted to make the world safe for American goods and capital rather than prepare the globe for democracy. Then, the influential German-American economist Friedrich List had already rejected Adam Smith's free-trade theory as unsuitable for the 19th century conditions of rivalry and inequality between nation-states. List, who may have been influenced during his journey to the U.S. by Alexander Hamilton's economic nationalism, also thought that laissez-faire capitalism had a built-in bias in favor of the trading interests of Britain, which had industrialized ahead of all other countries, and then – according to his views – threatened to undermine the nascent factories in the other European nations. Most importantly, List was a fervent admirer of the French mercantilists who wanted to close France to imports but to open all other ports for French exports. On a side-note, it has to be remarked that List was also a fervent supporter of national expansion urging Prussia-Germany to "go east" and colonize Hungary and Austria to push for south-east Europe (List 1928).

Mercantilism, under its original name or using more sympathetic labels has been present ever since. In Europe, sectors like energy or social services are state-led or –owned, whereas heavy industries have been appropriating foreign ministries and using them as worldwide lobbyists. Governments, on the other hand, appropriated big enterprises through meticulous regulation turning them into national champions with two main tasks: export goods and secure homeland jobs. In South America, state involvement in the economy never diminished. Nationalizations in Venezuela, Argentina and Bolivia co-exist with the Brazilian model in which the state takes the role of a shareholder in national industries. In Asia, different models emerged. Singapore turned the whole state-apparatus into a for-profit company while Japan developed a strategy of out-pacing the West. This meant, first to export cheap goods, to accumulate capital, to use this capital for developing new technology and then to export advanced goods at a good price. How was this development made possible? With mercantilist policies involving import quotas, special treatment by the government of those firms in developing new technology, cheap bank loans, and the government itself creating new companies among other measures. This model was adapted by Korea, Taiwan and, ultimately, China. Most of these Asian state-capitalists ironically received much assistance from the U.S. as it pursued its geopolitical interests, boosting local economies through wars in Korea and Vietnam, foreign aid, and its open markets (Hollingsworth &Boyer 1999).

In other words, state-capitalism seems to be present in recent history as well as in the contemporary world. It has the ability of disguise itself and take many forms, therefore, state-capitalism is not only about national industries, state-backed national champions, and more modernly, of sovereign wealth funds. There are more nuanced ways of mingling.

When approaching the subject of state-capitalism many disclaimers are warranted. The most important being that it is impossible to completely avoid situations in which government starts working as, through or with private enterprises. This, however, is not just a statement about actual state of affairs, but seems to describe an a priori situation of markets. A stable market needs stable rules which normally translate in a "rule of law". Where there is law, there is a state, and so, there is no capitalism without the state. Perhaps, the state as economic actor is naturally entrenched in the nature of non-anarchic capitalism. The second disclaimer is: In the world of economics, all agents are economic actors; therefore, if there is a state, it will act as an agent in the market.

State-capitalism can occur under a number of aliases, for example state run-enterprises, state-owned enterprises, public-private-partnerships, a policy in favor of national champions, the state as a minority shareholder, special regulations for specific activities, subsidies, protectionism, sovereign wealth funds or even the European style welfare state. The list is long and can go on. The differential is, however, how much impact state-capitalism has over the economy of a country. Recent surveys (Economist Intelligence Unit 2011) calculate the share of national or state controlled enterprises capitalization on the MSCI national stock-market index as 80 percent in China, 62 percent in Russia and 38 percent in Brazil. The OECD average is around 12 percent. The same survey shows that four out of the ten biggest global listed companies by revenue are under direct state control (Sinopec, China National Petroleum Corporation, StateGrid and Japan Post holdings). Five are national champions strongly favored by their home countries (Royal Dutch Shell, Exxon Mobil, BP, Toyota and Chevron). Out of them, only one is not by any definition a state capitalistic institution, ironically, it is the largest, Wal Mart.

In short, every intervention of the state in the economy in order to allow an advantage of a firm or a group of companies over others can be taken as state-capitalistic behavior. Usually, these actions advantage big corporations over small and medium-sized enterprises. However, if state-capitalism is defined even more loosely than pointed here, then other questions arise. For example, is each regulation by the state as such an act of state-capitalism? It may count as one, if the state – through the exercise of his regulatory powers – benefits a set of enterprises over others. It could even count as a state-capitalistic intervention if the lawmaker isn't aware of this effect. For example, Switzerland is revising its competition law outlawing some types of cooperation between enterprises. Through this, vertical integration is benefited, since only cooperating companies are addressed by this law and vertically integrated companies not (Baldi 2012). Skepticism might now argue that this is just an unintended consequence of a law, not state-capitalism per se. However, since the definition of state-capitalism must allow for nuances, is can be used also to cover these – far-fetched – actions.

Here, the scope of the definition will be reduced and state-capitalism will be broadly defined as a type of action by the state, in which the state either directly or indirectly becomes an entrepreneur or favors a given or groups of enterprises. If this definition is to be broadened even more, than all economic intervention of the state has to count as state-capitalism. This, on the one hand, would make the very term obsolete. On the other hand, it denotes a fact that business cannot happen without being regulated by some sort of government and therefore capitalism is always in a deep relationship with the state. In other words, some sort of state-capitalism seems always to take place.

Martin & Thelen (2007: 4) even claim that the state "(1) has an impact on the strategic interests of government bureaucrats, by expanding their interests in improving the skills of the long-term unemployed, (2) expands the capacities of bureaucrats to construct political coalitions of private sector groups to support state policies, and (3) alters the strategic interests of private actors. In short, we argue that the relative power and distinctive interests of the state are crucial factors in sustaining particular varieties of coordination across time within countries."

These discussions may be fruitful, but they miss a core idea of state-capitalism. It is used not because it is the most efficient way of producing and distributing goods, but because it serves political aims. Often, state-capitalist policies are employed in order to secure jobs, advance a geostrategic position, and maintain industries considered crucial for the development of a country and so on. The economic rationality that is at the center of the concept of capitalism (maximization of efficiency in a learning process of discovery by the markets) is abandoned if the state prioritizes political outcomes over the processes of markets. Political aims are naturally outcomes but the logic of capitalism focusses on the process to create outcomes (which cannot be established before the process takes place).

Capitalism lets demand and supply establish one or more equilibrium in different markets – state-capitalism defines the outcome to be reached and wants supply and demand to adjust to it. No market agent is able to certainly foresee the results of market-engagement. Only because of this "epistemic insufficiency" success, failure, different prices, cooperation any many more elements are possible. A market can only be accounted for its situation in the moment it is observed. Neither its development nor its results are stable and therefore, they are not foreseeable. State-capitalism goes for the inverse, foreseeable, clear-cut outcomes that can be planned or influenced by the state-agent.

In order to sum up this first section, it may be stated that state-capitalism is an economic system in which governments manipulate market outcomes for political purposes. Governments embrace state-capitalism because it serves political as well as economic purposes—not because it's the most efficient means of generating prosperity. State-capitalism is often diminished capitalism and enlarged state-action.

How does it work? In the next section, the inner mechanisms of state-capitalism will be described.

3. How does State-capitalism work

State-capitalism works on different levels. In this section, the theoretical, economic and social framework of state-capitalism will be analyzed. For the purpose of brevity, China will be treated as a primary example. The reason for using the Middle-Kingdom as example becomes apparent after a first look to some data on the Chinese market: In 2009, China Mobile and China National Petroleum Corporation – both state-owned – scored a combined profit of 33 billion US-Dollars which is more than the sum of the 500 most profitable Chinese firms. In 2002 the total assets of the 121 biggest Chinese state-owned enterprises were worth 230 billion US-Dollars, by 2009 they had reached to 2.9 trillion. As of 2009, some 85 percent of the 1.4 trillion US-Dollar bank loans in China went to state-owned enterprises. However, the average return on assets by state-owned enterprises was 0.7 percent, for Chinese small and medium-sized companies, this number was about 6.2 percent (McGregor 2012).

After a decade of retreating share of state-owned enterprises on the Chinese economy, this decline shows signs of halt. Experts agree on the state making up a third to half of the Chinese economic output, although they also admit that the number of state-owned enterprises decreased from around 680000 in the nineties to some 114000 in 2010, some 100 of them centrally controlled national champions. However, the same experts are quick in pointing out that first, this number has been stable for the last two years, and second the sheer number of state-controlled enterprises is not the only indicator on state-capitalism.

Market reforms were strong as China entered the World Trade Organization in 2001, but slowed after 2006, and were even reversed with stimulus spending in and after 2008. Since state-owned enterprises were the main receivers of fiscal stimuli, their average industrial output rose from six times that of the average private firm in 2004 to 11 times as much in 2010. In addition, state-owned enterprises enjoy a range of advantages. In return for guaranteed profits and state backing, official banks lend to state-owned enterprises at a third of the cost of credit available to private companies (those that can get official loans at all). The government showers a range of tax breaks and subsidies on state firms, and favors them in procurement contracts. Not having to pay for their land is a subsidy worth some 4 trillion Yuan Renminbi (640 billion US-Dollars) in the timeframe from 2001 to 2009. And of course, there is no intervention by antitrust regulators on state-owned companies.

Another advantage is the setting of industry standards. In the EU, in the US and even in Japan, standards are usually drafted by industry bodies after wide consultation, and not tied to the right to sell products. In China the opposite often happens. Whether in data protocols for mobile telephony or the technical specifications for electric-vehicle recharging, China has chosen to go its own way in a manner that confers advantage to domestic firms. Foreign firms are typically not consulted, whereas local companies help write the rules (data above from McGregor 2012 and World Bank 2012).

After this introductory example of state-capitalism, this section is exploring its theoretical foundations, economic agenda as well as social enablers.

3.1. Theoretical framework

According to Bergsager (2009, a proponent of state-capitalism at least in the energy sector) the institutional framework of state-capitalism is primarily based on two overlapping theories, neo-mercantilism and Institutional Political Economy. It is appropriate to stress them as overlapping since similar policy principles in theory can be derived from both of these theoretical frameworks. Many commentators would emphasize that neo-mercantilism is the best theoretical framework for understanding for example the Chinese version of state-capitalism, using state-run or state-owned enterprises in a strategy of "locking up" natural resources or capital throughout the developing world. However, this idea of "locking up" moves the attention away from the actual relevance of neo-mercantilism to the Chinese growth model, namely the Chinese state's support of promoting long-term growth in the real economy through incentives. This idea is derived from the sixteenth-seventeenth century European mercantilism's institutional framework and from Friedrich List's more modern ideas.

Contemporary neo-mercantilism highlights the importance of a strong domestic economy for the security of sustaining a continuous economic development in the real economy. Emphasizing this idea, several financial incentives are offered to the domestic economy through state intervention, be they protectionist trade remedies or state subsidies. Yet, relevant to the contemporary growth initiative are the late twentieth and early twenty-first centuries' neo-mercantilist protectionist tools or trade remedies, which can be summed up by the following: A favorable monetary policy and the recently popularized "safeguard" provisions, antidumping measures and countervailing duties. From this state-capitalist point of view, by actively promoting and protecting domestic industry, most notably securing the state-owned enterprises' competiveness, the establishment of long-term growth in the real economy is achievable.

Proponents of neo-mercantilism state that the consequence of implementing these tools is a more secure and sheltered domestic industry that promotes long-term growth, competitive development and a diversified manufacturing and industrial sector. As a result, by combining this with a neo-mercantilist controlled monetary policy which prevents currency fluctuations, speculations and excessive cross-border currency flow, in addition to increased competitive advantages to the international market, the aforementioned tools provide a semi-free market with the overall purpose of securing domestic long-term growth in the real economy as opposed to growth in the financial sector. The Chinese attachment to the neo-mercantilist approach is its overall agenda of securing the competitiveness and diversification of its industrial and manufacturing sector.

Interestingly, China has not excessively implemented trade remedies of "safeguard" provisions, antidumping measures and countervailing duties (to the same degree as the European states or the US), but relied on the latter policies (World Bank 2012). It is therefore more appropriate to regard the neo-mercantilist influence on primarily the policies concerning a tightly controlled monetary policy and financial system in combination with a subsidization of China's seven core industries, financial institutions and infrastructure development industries.

Institutional Political Economy draws its theoretical basis from the former Institutional economics, which to a certain extent presents them both as bodies of thought within the theoretical framework of Keynesianism. Important Institutional economics' scholars are Thorstein Veblen, John Kenneth Galbraith and John Commons. In contrast to the classical economic doctrine, these scholars emphasized the market as just one of numerous institutions involved in shaping economic development. The state is given a central role in charge of mapping out the rules and regulations beneficial to all institutions within the economy to the degree that the end result will be growth in the real economy. As a result, the state promotes "an industrial policy aimed at particular industries (and firms as their components) to achieve the outcomes that are perceived by the state to be efficient for the economy as a whole." (Chang 1994). This "favoritism" from the state is based on the necessity of developing state-owned enterprises, which will be better explained when mapping out the economic principles of state-capitalism below.

3.2. Economic agenda

This institutional framework leads to the economic shape of state-capitalism. Wallerstein (1974) and more recently Bremmer (2010) developed the argument for how to understand state-capitalism economic aims and workings. In a nutshell, there are three main points regarding this realm. First, according to state-capitalism, a workable financial system must be in place that through regulation is able to guide the material self-interest of individuals and corporations in pursuing long-term profit goals, and not only increase the short-term profits of its shareholders. This correlates with John Kenneth Galbraith's theory: that the financial system should determine price and wage levels in order to control inflation. However, this approach should be attributed to the state's responsibility in promoting the objective of full employment.

Second and still according to the state-capitalist idea, sustaining manufacturing is vital for supporting the continued development of high-value services. Here, the state's role is to promote key competitive manufacturing sectors, which develop productivity growth and an industrial niche for the promotion of international trade and further innovative thinking. However, a competitive and diverse manufacturing industry is also emphasized based on the lessons drawn from the seemingly insufficiencies of the neo-liberal market economy prior to the 2009 financial crisis. Hence, an important task is the state's obligation to provide necessary preconditions for private sector development, such as institutions securing the rights and security necessary for private enterprises to thrive and develop, combined with a capable banking sector willing to support this development.

Third, governmental interventions should be present in order to encourage economic dynamism and stability. Furthermore, through Research and development-investment, worker training, risk sharing in projects low on private returns but high on social returns, and the protection of "infant" industries, the state can increase its industries' competitive level on the international market.

A common feature shared by the theoretical framework as well as by the economic logic of state-capitalism is that the state-planners (are assumed to) know not only the results they want to produce but also the dynamic they want the markets to operate in order to establish the desired outcomes. I.e. state-capitalistic logic assigns an epistemic advantage for the state over the market-agents. While this can be argued for, especially from the institutional perspective, there is a second pre-condition for state-capitalism to work: The market agents must act in accordance with the plan or at least with the incentives. It is assumed that market agents behave alike and share motivations as well as epistemic capabilities. In other words, all participants of the market share the state's interests and will not take advantage of the system to benefit them or serve to personal self-interest. This goes together with a third tacit assumption, namely, that markets cannot establish themselves but need state-guidance to do so. This is especially problematic because efficiency is not taken into account. If market-agents find a more efficient way to establish an outcome that is good for them but perhaps not desirable from the state-perspective, the state-capitalistic model does not how to answer to this challenge.

Economics, however, does not happen outside society and therefore there are social implications for state-capitalism.

3.3. Social enablers

There are, of course, also social conditions that enable state-capitalism. Political systems in which the state continuously has been playing a more active role are more prone to state-capitalism. Hofstede-style communitarian societies like Scandinavian countries also live better with state-capitalism; however, these tend to mount pressure regarding transparency, regulations and outcomes. Authoritarian-ruled countries show remarkable high levels of state-capitalism, but democracy does not prevent it; many democratically governed countries also display this inclination.

It has been observed (Goldstein 1999) that democracies like Brazil or India do not achieve the same outcomes under state-capitalism than authoritarian countries like Korea (at the height of its state-capitalism), China or semi-democratic Singapore. Often, this difference has been explained away recurring to some cultural background (Robinson 2004). However, another response is possible.

The most important difference between the before-mentioned countries is that the former are authoritarian countries and the latter democracies. Without going into the merits of each form of government, usually monistic systems do not have to account to some or all stakeholders of society, that means, authoritarian government is not bound to constituency. This brings the advantage of not having to serve interests of organized groups and therefore being free to serve the interests of the state as a whole (however, this does not imply a normative good). In other words, if the state-capitalistic government's aim is to provide for economic growth, promote infant industries, secure stability and from this basis on increase the prosperity of a country as a whole (while increasing its power as a state-agent), then it is better-off if it can operate without a distraction from the objective. Achieving all these goals as a whole is likely –but far from certain – to improve the lives of the other market agents in average but not of every one. If, however, particular groups exercise pressure on government to privilege them over others in society, then the state-capitalistic entity will use its powers not to achieve before-mentioned goals but to serve particularistic interests creating so a second-order market-distortion (state-capitalism itself being the first-order-distortion).

Democratic states are more likely to have to serve interests of particular constituencies. In this case, democratically-elected state-capitalistic governments are also more likely to use their apparatus in order to serve these special interest groups. State-capitalism, which as such does not prioritize efficiency, loses even more efficiency by catering individual constituencies. This allows explaining why "democratic state-capitalistic countries" like Brazil, India or France consistently underperform free economies as well as authoritarian state-capitalisms.

Inversely, it is not claimed that these authoritarian countries are free from second-order-distortions. Within the system of state-capitalism there is still enough room for rent-seeking behavior. However, authoritarian state-capitalists are still freer in the interests to serve and their foremost aim, establishing the state as main agent, can only be achieved by a successful state-capitalism. Therefore, these states tend to concentrate of achieving the aim. And this explains the relative success – in average – of countries like China, Indonesia and Singapore. However, this relative success comes at a price and the price is the lost in efficiency and innovation. With the time, even authoritarian state-capitalists will have to cater for the needs of their population which ends in larger welfare-states and often very expensive investments without a perspective for return on investment. Again, a Chinese example: Investment in infrastructure narrows the gap in efficiency between regions making investments overall less efficient. China's investments suffer from low efficiency and they are being directed to still less efficient regions with the grow West strategy.

To sum this section up: departing from the theoretical considerations for state-capitalism very specific economic policies are developed. These policies may create market distortions because the theoretical framework of state-capitalism shows some important problems like assuming epistemic privileges and the absence of self-interested action. The most important problem, however, is the lack of concern with efficiency. On a social level, state-capitalism may work better under authoritarian rule than in democracies but remains prone to problems.

4. A challenge – to whom?

State-capitalism seems a success story. Most "western" governments look with envy towards China and some openly think about imitating it. Yet a close look at the model shows its weaknesses. When the government favors one lot of companies, the others suffer. State giants soak up capital and talent that might have been used better by private companies. State companies use capital less efficiently than private ones, and grow more slowly (Schneider 2012). State companies are good at copying others, partly because they can use the government's clout to get hold of their technology; but as they have to produce ideas of their own they will become less competitive. State-owned companies make a few big bets rather than lots of small ones; the world's great centers of innovation are usually networks of small start-ups. And: state-capitalism does not guarantee stability. State-capitalism works well only when directed by a competent state. Many Asian countries have a strong mandarin culture; South Africa and Brazil do not. Coal India is hardly an advertisement for efficiency. And everywhere state-capitalism favors well-connected insiders over innovative outsiders.

Rising powers have always used the state to initiate growth: Japan and South Korea in the 1950s or Germany in the 1870s or even the United States after the war of independence. But these countries have, over time, invariably found that the system has limits. It may take many years, however, for the model's weaknesses to become obvious; and, in the meantime, it is likely to cause different types of problems. State-capitalist governments, as simultaneously regulators and investors, can be capricious, with little regard for minority shareholders. Another concern is the impact of the model on the global trading system. Ensuring that trade is fair is harder when some companies enjoy the support, overt or covert, of a national government.

For emerging countries state-capitalism has an obvious appeal. It gives them the clout that private-sector companies would take years to build. But its dangers outweigh its advantages. Both for their own sake, and in the interests of world trade, the practitioners of state-capitalism need to start unwinding their holdings in favored companies and handing them over to private investors. Failing to do so may result in inefficiency, being caught in the "middle income trap" or even losing momentum in development.

There are, of course, some advantages of state-capitalism. It enables countries to learn know-how, to accumulate capital, to transfer management skills and even to form financial markets. It guarantees some sort of economic stability and lastly, it enables states to become and remain global players. All these advantages are countered by their price. State-capitalism normally shows a lack of capacity for independent innovation, low average returns on investment of state owned enterprises, lost in total factor productivity (total factor productivity of private companies is twice that of state companies) and the socialization of costs. Huge state-owned companies gobbling capital for inefficient investment and the low productivity also account for the "middle income trap" in China, Brazil and other practitioners of state-capitalism (Schneider 2012). Lastly, state-capitalist countries tend to display over-regulation and problems in governance: corruptions, throwing good money after bad money, privileges for well-connected insiders over innovative outsiders are just some of them. Even if it is to be accepted that in the beginning of a life-cycle efficiency can be overlooked, as an economy matures it will have to stand up to international competition, therefore life-cycle management is crucial for state-capitalism. However, the managers of state-capitalists have – as insiders – an interest in delaying life-cycle advancements, which on its own is a challenge to the overall goals of state-capitalism itself.

In sum, state-capitalism may be a short-term challenge for free-market systems but is a long-term challenge for the state-capitalists themselves.

5. Conclusions

State-capitalism is an economic system in which governments manipulate market outcomes for political purposes. Governments embrace state-capitalism because it serves political as well as economic purposes—not because it's the most efficient means of generating prosperity. It puts vast financial resources within the control of state officials, allowing them access to cash that helps safeguard their domestic political capital and, in many cases, increases their leverage on the international stage. But state-capitalism also stems the rise of globalization, because to varying degrees it hampers the flow of ideas, information, people, money, goods, and services within countries and across international borders.

However, recently state-capitalism seems to be the winning strategy in globalization. In the last five years, state-capitalistic nations consistently fared better than (so-called) free-markets. This makes state-capitalism a challenge on several levels. First, it asks deep questions concerning the Western understanding of capitalism and freedom. 'Western' philosophy usually links democracy, liberty and entrepreneurship; the Chinese model questions this link. Second, many economists consider private investment to be more efficient, flexible and innovative than state-run enterprises; how, then, is Chinese state-entrepreneurism working so well? Third, what is different now from what happened in the state-capitalistic versions of Latin-America and other Asian countries (they didn't work, after all)? Fourth, why did South Korea abandon the state-capitalist system at the height of its bloom? Fifth, how should a state-run system develop, if the state-machinery does not?

An assessment of state-capitalism should be done in the light of three factors:

1. There is no clear dividing line between state-owned and private companies. "Private" champions such as Huawei, the telecoms giant, have repeatedly been given government help. This makes it hard to produce precise calculations about the productivity of the two sectors.

2. Ownership is not the only thing in play. Some of the problems, and the successes, of state-capitalism have more to do with rapid development than with state ownership.

3. Everything depends on context. It is quite possible for state-capitalism to work well in some areas (e.g., infrastructure) and badly in others (e.g., consumer goods). It is also possible for it to boost growth at one stage of development and impede it at another.

The advantages of state-capitalism are its enabling of fast development, learning and thus making an economy richer. Its disadvantages are: companies become less efficient, the rate of return of capital is low and the capability of innovation seems hampered. State-capitalism functions in authoritarian states because there is no promise of personal gains for individuals.

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