

Erik Moberg ©:

The conflict between politics and economy in China

In the book I wrote (page 156) that dictatorship and a fully developed market economy are incompatible and that China is an interesting example. Thus “In my opinion we will soon—probably within ten years—see a transformation in China. Either the market-driven actors will enforce considerable political changes towards democracy, or else the dictatorship will strangle the markets.”

In my discussion about China I found the comparison with India interesting and wrote (page 156): “The Chinese manufacturing industry is to a considerable extent based on foreign enterprises—so called contract manufacturing—and in many cases foreign enterprises have also invested directly in China. The share of new foundations based on Chinese innovations is comparatively small. In India the situation is very different. There the domestic innovation activity is burgeoning and masses of small enterprises, based on innovations are founded.” The market economy was thus much more developed in India than in China.

Now things have however changed. China has—in the respect mentioned—become much more like India. In a long and very interesting article *The Economist* (September 23rd, 2017) describes a widely spread and rapidly growing innovation activity in China and the creation, by Chinese entrepreneurs, of new and initially small companies for the commercialization of the resulting inventions. This means that China is rapidly on its way to a fully developed market economy, or, perhaps, is already there.

If I am right this should reasonably sharpen the Chinese conflict between politics and economy. And this conclusion is underlined by the fact that the dictatorship under Xi Jinping simultaneously (as documented [here](#)) has become more centralized and sharper. An already unstable China has become much more so!