Is the high degree of state control over enterprises a distinctive feature of the Chinese economy?

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1. Introduction

Classifications and the process of creating them are fundamental to the way we understand the world and thus interact with it. Everitt (1995) notes that classification is key to most areas of science, allowing us to group similar things and gain insight into their nature. Farradane (1955) argues that classifications must reflect the complexity and changeability of knowledge. Economists have long sought to use classifications to describe different economic systems and identify those that achieve the most favourable economic results. Until the turn of the 20th century, various forms of liberal capitalism, with a significant but limited role for the state in the economy, appeared to be the dominant choice among economists.

China, after 40 years of rapid economic growth, puts this view both into perspective and question. The Chinese economic model is characterised by a unique combination of market processes and a strong state presence in the economy. As we present in this article, the share of state-owned enterprises in the Chinese economy is very high compared to other countries, and we observe some unconventional (not observed, at least on this scale, in other major economies) measures implemented to increase control over private entities. This configuration transcends the traditional division of economic systems into capitalism and socialism.

It follows the natural question: how do we classify the Chinese economy? Is it more socialist or capitalist in nature? How is China different from other major economies and what are its main distinguishing features? The **objective** of this article is to provide a contributory analysis of whether a high level of control over enterprises (through ownership and other methods) is particularly important characteristic of China's economy. Our goal is to enrich our understanding of China's economic landscape and provide a new perspective on the classification of economic systems.

In the context of this article, 'control' refers to the extent and manner in which a state, including the government and its agencies, influences or directs the operations, management, and strategic decisions of enterprises. This control can manifest in various forms, ranging from direct ownership and investments through regulatory oversight, policy directives, and strategic interventions, to various forms of informal pressure. It's not just about who owns an enterprise, but also how much a formally private enterprises' decision are influenced directly or indirectly by the state regarding their strategy, priorities, and even day-to-day operations. Measuring this phenomenon, although much needed for scientific analysis, presents its own set of challenges. When it comes to ownership, it's crucial to understand that not all ownership stakes are created equal. A minority stake in one enterprise might offer more influence than a majority stake in another, depending on the ownership structure of the company, the regulatory environment or the practices of a given government. Furthermore, when we shift our focus to the influence exerted on private enterprises, measuring control becomes even more challenging. The concept of 'control' is not always readily quantifiable, being deeply entwined with nuanced relational dynamics, informal communications, and indirect pressures. In the Chinese context, enterprise declarations provide valuable insights. These declarations can act as indicators of state influence, even in the absence of explicit documentation. Despite these complexities, it remains imperative to analyse this phenomenon to gain an insight to understanding this identified new phenomenon. However, it's crucial to approach such analyses with an awareness of their inherent limitations and potential data problems.

The remainder of the article is structured as follows. Section 2 delves into the history and criteria of economic system classifications. These classifications serve not only to encapsulate the essence of an economic model at a specific period but also play a crucial role in comparative analysis and in identifying leading models. As economic thought has evolved, so have the criteria for these classifications, reflecting changing perspectives, values, and societal norms. However, these classifications are imperfect reflections of reality, influenced by both internal and external factors like technological advancements and trade patterns. Section 3 shifts the focus to China's economic trajectory since the beginning of its 'Reform and Opening-up' policy in 1978. This policy has started China's remarkable economic development, ranging from its integration into global production chains to the ongoing privatisation of SOEs. Despite the proliferation of private enterprises, the commanding presence of state-owned enterprises underscores the pivotal role of the state in China's economic fabric. This section also explores the disparities in governance structures and management efficiencies across different types of enterprises. The article concludes with Section 4, wrapping up the discussion, where we present our key findings and conclusions drawn from the analysis. We argue that the degree of control over enterprises (both private and state-owned) is the missing criterion for aptly distinguishing China from other modern economic systems. We also shed light on potential directions for future research, suggesting areas that might benefit from further exploration.

2. Criteria for classifying economic systems

Economic systems can be classified in many ways. Historically, scholars have employed a range of criteria to classify these systems, on the basis of a classification reflecting the factors defining the economic reality of the time. Since the 20th century was marked by rivalry between Western countries and the socialist bloc, the criteria that primarily described the types of economic systems were those that most distinguished these blocs (Bruno and Estrin 2021, 871). The first of these criteria was the **ownership of the means of production**. This criterion poses a question of control, asking who has the rights to command assets, appropriate the income generated, and transfer ownership. Answering this leads us to the two primary types of economic systems: capitalism and socialism. In an economic system that adheres to the principles of capitalism, the overwhelming majority of the means of production are owned mainly by private individuals who have garnered the requisite financial resources to procure these assets. Conversely, in a socialist system, it is widely recognised that the means of production are possessed, to a significant degree, by society (or – depending on the perspective – the state) and the collective as opposed to being under the sole proprietorship of any one individual or entity. It is worth noting that, as Gardner (2023) points out, there was (and is) a great deal of diversity within these two groups. Ownership in capitalist systems can range from sole proprietorships, where a single individual owns and often manages a business, to vast multinational corporations where ownership and control are separated. In the latter, shareholders might have ownership, but direct control is exerted by a board or executive team. Socialist systems also can be differentiated based on who owns the means of production. This could be the national government (as seen in state socialism), local communes, or cooperatives formed by producers or consumers.

Following ownership, the **mechanism of resource allocation** (coordinating mechanism) becomes crucial. This criterion inspects how societies determine and distribute resources among various users and applications, paving the way to market economies, planned economies, and mixed economies. This criterion inspects how societies decide how to allocate resources among different users and uses, paving the way for distinguishing between traditional, market and planned economies. Following Gardner (2023), we define a traditional economy as being reliant on maintaining the status quo, while a market economy uses market prices to achieve coordination, and a planned economy attempts to guide the economy with a central plan. A similar criterion was used by a study by Hall and Soskice (2001) who distinguished between liberal market economies (e.g., the U.S., the U.K. AND Australia) and coordinated market economies (e.g., Germany, Sweden AND Japan), based on how companies coordinate with each other and other entities.

The next criterion is the **level of state intervention**. It is based on the extent of the government's role in the economy, which can vary from defining rules and regulations to the full control through various measures (mainly aforementioned ownership and coordinating mechanism). This approach is used by (ideologically driven) think tanks like The Heritage Foundation or the Fraser Institute to create measures of so-called economic freedom (Index of Economic Freedom and Economic Freedom of the World Index). The first of the mentioned indexes split countries into “free”, “mostly free”, “moderately free”, “mostly unfree”, and “repressed” categories (The Heritage Foundation 2023).

Economic systems are also influenced by **culture and values**. For example, in his 2007 research, Pryor discovered that nations within the OECD can be grouped into five unique cultural systems, and these systems align closely with their respective economic structures. On this basis, he distinguished the following economic systems: Anglo-Saxon, Nordic, Western European, Southern European, and Other. While this classification is interesting, it should be noted that the study covered only 17 OECD countries, a sample that is not representative of the world.

Another classification that is pertinent to the discussion of economic systems is the **categorisation according to the level of development**. This approach differentiates economies based on factors such as income (GPD or GNI per capita) or, as an attempt to address criticism of GDP as a measure of economic progress, other indicators as Human Development Index or Happy Planet Index. The UN divides the world's countries according to the level of the first of these indicators into 4 categories: very high human development, high human development, medium human development, and low human development (United Nations 2022, 272-275). The World Bank uses GNI per capita to distinguish between four groups: high-income economies, upper-middle-income economies, lower-middle-income economies, and low-income economies (World Bank 2023). Nielsen (2011) criticises such classification approaches, highlights the lack of clarity in the principles underlying these systems, and proposes an alternative methodology based on transparent data-driven approaches.

Other criteria used by scholars and researchers include types of key resources, patterns of foreign trade, and the degree of openness of an economy. A country's key resources divide economies into natural resource-based, knowledge-based, labour-intensive, or capital-intensive ones. Patterns of foreign trade, reflecting a nation's import and export activities, further classify economies as export-oriented, import-oriented, or those with balanced trade. Lastly, the degree of openness of an economy, determined by its level of engagement with international trade and investment, distinguishes between closed and open economies.

As this review has shown, the main classifications of economic systems do not include **control over enterprises** as an important factor in differentiating them. The unique attributes of China's economic system – as explored in the next section of this article – challenge these classification approaches, which should lead to a more nuanced framework that accounts for its distinct features. Classifications, as theoretical constructs, imperfectly mirror the evolving economic reality that is constantly reshaped by global challenges, technological development, and emerging economic powerhouses, like China.

3. The control over enterprises in a reforming Chinese economy

Introduction

China's successful, and to date sustained, economic trajectory since the late 1970s is as much acknowledged as it – rightfully – commands widespread respect. The economic indicators most often drawn on to highlight these accomplishments include trade growth, GDP growth, poverty reduction, and increased industrial capacity – measured both in terms of output and sophistication.

This transitionary track record is the more impressive if one considers the myriad coordination challenges that had to be met across countless economic actors, a feat that is often associated with 'developmental states'.

It is of course not correct that China had no industrial capability, or indeed any industrialisation drive prior to the Cultural Revolution (Naugthon 2006, 379). Earlier work has established that her systemic {reform}, which accounts for China's rapid rise, have been driven primarily by the transformation of economics institutions, notably a rearrangement between market-supplanting and market-strengthening factors which encompassed both state-owned enterprises (SOEs) as well as non-state-owned enterprises (see Lo and Li (2011), for example).

As such, questions over enterprise control during China's path towards becoming an industrialised, necessarily come to the fore.

Background

Goetzmann and Koll (2005) make the argument that, given the gradual transformation of ownership and control structures towards more privatised enterprise in China, the country does not have all too many models to copy from. Granted, by now a plethora of experience has been gained over the last decades, also allowing to absorb 'lessons learned' and to reproduce putative 'best practices' from foreign (western) countries. Ownership and control, however, are mechanisms that are also governed by social and cultural factors. Goetzmann and Koll (2005) thus look back at Chinese enterprise transformations as far back as the 19th century, identifying similarities with modern times: "[t]hen, as today, some of China's most important enterprises were structured as public-private enterprises—financed in part by equity capital, but effectively governed under the auspices of official oversight." Goetzmann and Koll (2005, 150).

While these are valid considerations, we choose to analyse China's economic structure starting with the 'Reform and Opening-up' ("改革开放") period, that is, with China's policy-driven desire to both commercially interact more strongly with the wider world, while also striving to transform the internal economic structure, forcing, inter alia, ownership diversifications.

The transformation of China's economic structure from a planned economy to a market-driven economy implies that the state played a dominant controlling role in the economy at the beginning of the transformational period. In China this role was heavily exercised through state-owned enterprises.

In China's case this process of transferring control did not follow a 'big bang' approach and was not even part of the modernisation policy mix before the early 1990s, thus significantly over 10 years after the reform process had been put into motion (Chavance 2000). Jefferson, Rawski, and Zheng (1992) calculated that in 1978 the output of SOEs and collective enterprises (COEs), but excluding township-village enterprises (TVEs), represented 92% of industrial production, and 86% of total output (pages 241f).

In other words: "In the early 1980s, the state took almost all important decisions, from personnel to production decisions, for SOEs. The integration of ownership and operations was accompanied by inefficient decisions; that is, the state did not have enough information and expertise to make good decisions." (Lin et al. 2020).

Chavance and others (2017, 6) helpfully gives an overview, starting with 1982, of what he calls the 'long march of private property in official doctrine' leading to an estimated industrial SOE share in China of 21.1% of GDP in 2017 (Zhang 2019). This change, even after allowing for grubby data quality and delineation, is striking. Cornerstones in this 'long march' include the incorporation of the private sector in the Chinese constitution as a "complement to the socialist public economy", the policy drive of 'keeping the large while letting the small go' ("抓大放小") which has led to mergers thus reducing the number of SOEs, the acceptance of private entrepreneurs in the Party, WTO membership, and others. Chavance and others (2017) are at pains pointing out that these changes were driven by "pragmatic needs to face the tensions inherited from the previous period of change" (page 6).

They further clarify: "[the] dominance of bureaucratic coordination [that] is substituted by dominance of market coordination, represents a first phase; the second phase lies in the replacement of preeminence of state ownership by ascendency of private ownership. [The] first phase extended on ten years (1984-1994), and the second took another decade (1994-2003)" Chavance and others (2017, 16f).

China's 'reform and opening' transformation strategy, characterised by an initial trade liberalisation followed by internal market liberation, cannot be separated from a discussion around privatisation and hence control. Rather, control is a central tenet of China's transition and growth story. Walter (2010) advances this analysis by clarifying that given the role of trade and 'opening', SOE reform had a 'unique directional impact' in fostering Western capitalism within China.

Overview of different types of company ownership

As has already become evident, various types of company ownership have either evolved or have been introduced so as to shape today's economy of the People's Republic of China. These ownership types may be, following the taxonomy of Lee, Park, and Wang (2012), conveniently segmented into a) domestic state-owned enterprises, b) domestic private enterprises, and c) foreign-funded enterprises. However, this delineation is of course a simplification, chiefly for two reasons: first, the issue of joint-ventures (JV) are not satisfactorily addressed. For example, what share of foreign funds makes a foreign-funded entity? The same question is valid for joint ownership between the state and (domestic) private capital. Second, a distinction is to be made between an ownership-based taxonomy and an 'actual controller'-based taxonomy as is the basis of official Chinese statistics and company disclosures (Huang, Véron, and Xu 2022, 4ff). It stands to reason that the latter 'actual controller' taxonomy is more challenging to identify as actors and agencies have to be considered. Following official nomenclature, "a "controlling shareholder" exercises direct control, and an "actual controller" exercises ultimate indirect control by controlling a controlling shareholder" (Huang, Véron, and Xu 2022, 11). Naturally, the underlying control complexities can quickly become daunting to analyse – not least because both ownership and control are shifting variables.

Accepting this reality, Huang, Véron, and Xu (2022) adopt the ownership taxonomy, albeit in a different manner than the simplified approach Lee, Park, and Wang (2012) chose, in their in-depth statistical analysis of changes and relative performance across the various Chinese company types between 2004 and 2020. In fact, their focus are enterprises 'with Chinese characteristics', dropping foreign-funded companies for their analysis altogether. This choice is largely due to the research questions Huang, Véron, and Xu (2022) pursued and should not belie foreign companies' importance in bringing significant investment into China. In this analysis, three categories of Chinese companies are chosen: a) SOEs (state ownership >50%); b) MOEs (mixed-ownership enterprises, with state ownership >10% but <50%); and c) NPEs (non-public enterprises, with state ownership if <10%). The authors take the NPEs as an approximation of privately owned enterprises; while these definitions are also subject to blurred lines, they are broadly mirrored in other scholars' classifications; see Witt (2010, 4), for example.

The current state of company ownership

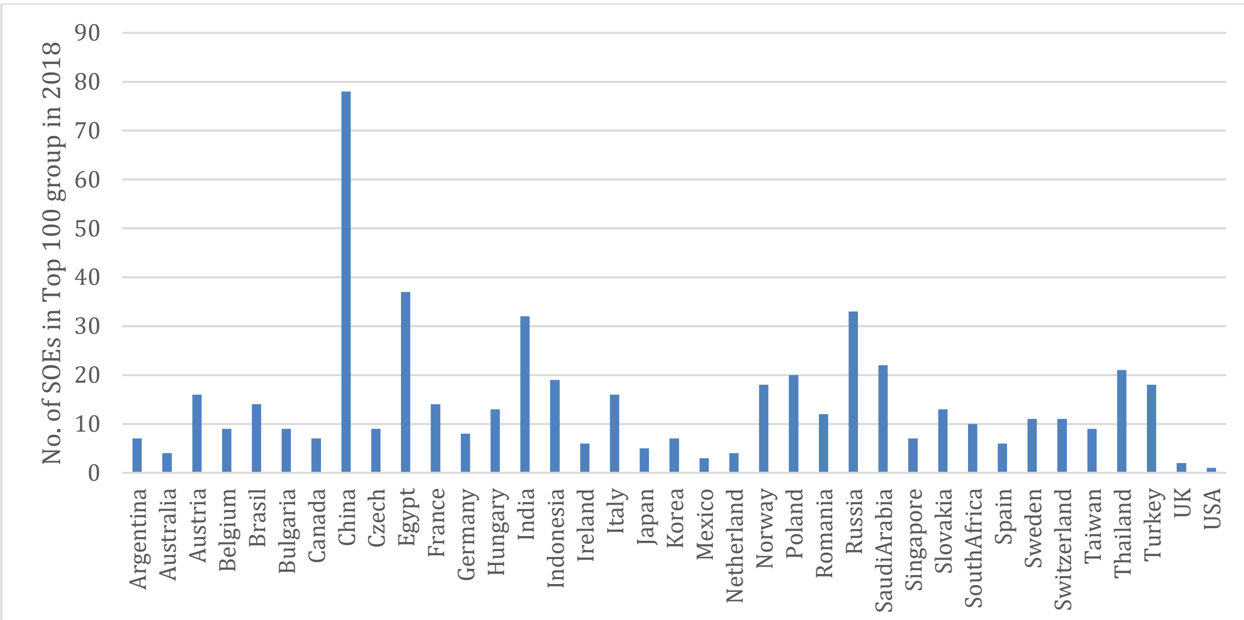
The research by Huang, Véron, and Xu (2022) shows that in 2007 the Fortune Global 500 included 22 Chinese SOEs; by 2012 this number of Chinese companies rose to 70, a number that included 6 NPEs. By 2021 98 Chinese SOEs and 32 NPEs were included in Forbes' global revenue listing. This research further shows that SOEs are losing ground in terms of relative weight within the Chinese economy – and this despite the authors' claim that Chinese government policy during the Xi Jinping era (starting in 2007) actually favoured SOEs. This is not to say that the Chinese state does not exercise significant control (McGregor 2019). But it shows the continued dynamism and importance of private enterprise in China. In this context, the social implications of privatisation are also of concern. Bin and Peng (2021) for example ponders questions of Chinese entrepreneurialism and social mobility, be it under privatisation or within the start-up sector.

Nonetheless, SOEs continue to play key roles in various segments of the Chinese economy, including those that the government deems strategic. This, however, is a realisation that does not surprise, given that SOEs have traditionally played a key role in both fostering development and serving as a policy transmission channel.

Chen, Firth, and Xu (2009) find that different ownership types pursue different objectives, exercise their control in different ways, and furthermore "differ in their management and monitoring effectiveness" (page 180). Dong et al. (2020) suggest that the ownership structure of Chinese companies has a governance effect on real earnings management (and hence profitability).

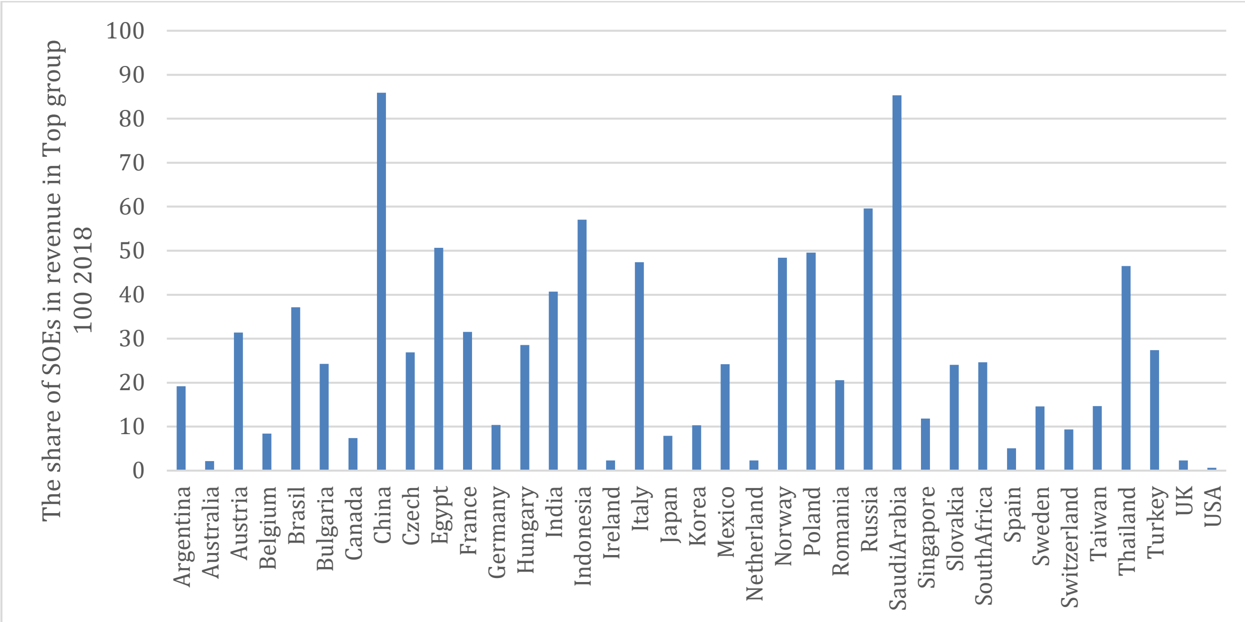
The Chinese state's control over the economy has remained relatively high. State-owned enterprises are still the backbone of the Chinese economy. Research by Bałtowski and Kwiatkowski (2022) shows that the share of state-owned enterprises among China's largest entities declined between 2009 and 2018, but very slightly. In the group of the 100 largest Chinese enterprises, there were 83 state-owned enterprises at the beginning of the period, while at the end there were 78. There was a similarly small decline in the share of state-owned enterprises in revenue in this group – from 92.1% to 85.9%. It is also worth noting that in the group of 10, as well as the 20 largest enterprises, these values are at even higher levels (exceeding 90%). To put it into perspective, we present data for many countries from the aforementioned book.

Figure 1. The number of SOEs in the group of 100 largest enterprises in 2018



Source: Bałtowski, Kwiatkowski (2022).

Figure 2. The share of SOEs in revenue in the group of 100 largest enterprises in 2018



Source: Bałtowski, Kwiatkowski (2022).

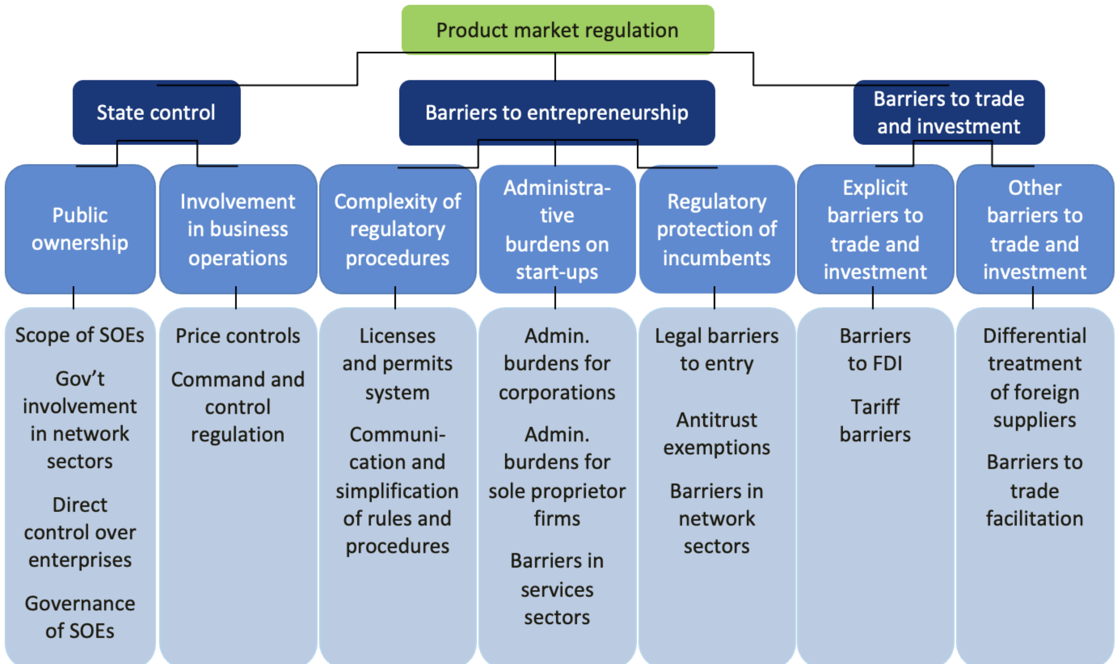
The dominance of state-owned enterprises in the Chinese economy is much greater than in most other countries, reflecting the unique role they play in China's economic system.

The Chinese economy is thus still highly nationalised, and – furthermore – in recent years, there is a trend of strengthening the Party's control over the economy. An analysis by Nikkei Asia (2022) found that the majority (1029 of 1526) of Chinese companies listed in Hong Kong have articles of association that formalise the role of special Communist Party cells operating in these companies. 153 of these companies refer directly to the thoughts of China's current leader in the charter. It should be underlined that this applies not only to state-owned enterprises but also to private ones. These “special cells” are party representatives in the companies, monitoring the decisions made and ensuring they are in line with the party line. This institution emerged in China during Jiang Zemin's leadership (more than 20 years ago), but most of the aforementioned articles were introduced during Xi's rule. China's Corporate Law stipulates that companies “should provide the necessary conditions for the activities of party-affiliated organizations,” but this has generally been ignored over the years. Under the Xi government, “corporate governance (supervision) with Chinese characteristics" was introduced in 2017. A year later, the China Securities Regulatory Commission amended the corporate governance code for state-owned listed companies, requiring them to reserve activities related to “party development” in their charters. The 20th Congress of the Communist Party of China made – written into the Party's charter (constitution) – further decisions in this regard, specifying, among other things, in what kind of companies the Party's cells should have a presence. This practice in particular intensified after the 2008 global economic crisis (Yan and Huang, 2017).

Huawei, one of the most known Chinese tech companies, stands as a compelling case study in the discourse of control over private enterprises in China's economy. While formally private (employee-owned), its ownership structure has been a subject of scrutiny, especially during its U.S. expansion efforts. A 2019 report by Balding and Clarke challenged Huawei's transparency regarding its ownership. As a non-public company, Huawei isn't subjected to standard disclosure practices, leading to suspicions of potential Chinese government influence. Although Huawei denies these claims, its non-public status means taking their word at face value. The company's unique "virtual stock" for employees, which differs from traditional shares, adds another layer of complexity. This case epitomises the challenges in understanding control and ownership in the Chinese business landscape.

As we pointed out in the introduction, measuring the control over private companies is much more problematic, especially in comparative terms. Nevertheless, the Product Market Regulation published by the OECD (2018) indicator can provide interesting information here, although the latest update of the index did not include China. In the previous editions, that is, in 2008 and in 2013, China had a higher value of this index higher than all the OECD countries. Values were particularly high in the following categories: *State Control* and *Barriers to entrepreneurship* (we refer to the structure of the index from 2008 and 2013 - the next edition contains some changes). These two sub-categories – especially the first one – can be interpreted as measures of control over enterprises. The *State Control* included *Public ownership* and *Involvement in business operations* sub-categories. Going down to the lowest level, the following categories seem most interesting in the context of our research question: *Scope of SOEs* and *Direct control over enterprises*. The complete schemata of 2013 version of PMR indicator is presented in Figure 3.

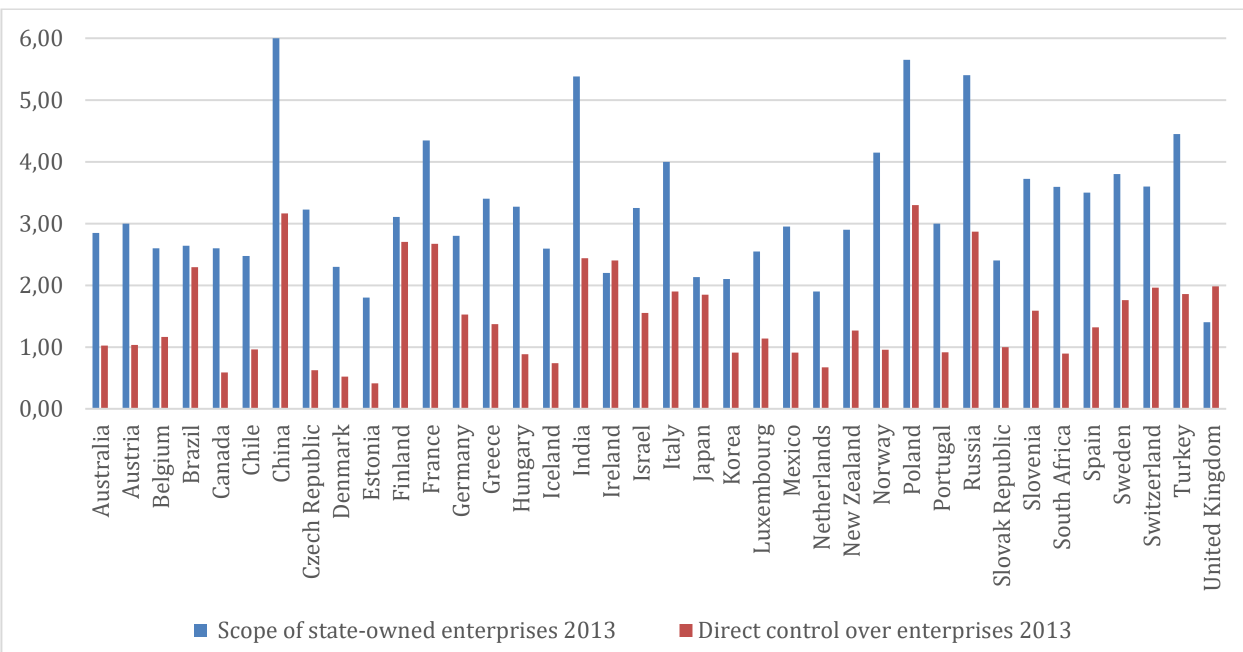
Figure 3. The schemata of 2013 Product Market Regulation indicator



Source: OECD (2018).

Available data for these selected elements of the PMR index are presented in Figure 4. The higher the value, the greater the state control. The maximum value of the index is 6.

Figure 4. *Scope of state-owned enterprises* and *Direct control over enterprises* in *Product Market Regulation indicator*, 2013



Source: OECD (2018).

As for other indicators – China ranks very low in the Index of Economic Freedom ranking created by the Heritage Foundation (2023) and The Wall Street Journal – 158th out of 177 countries, with marked declines in recent years. With the score 48.0 they are currently in the lowest category ("Repressed"). In 2019 they were ranked 100th with 60.8 score. The latest data on the Economic Freedom of the World created by the Fraser Institute (2020) ranks China on 116th out of 165 countries. They rank exceptionally low in the *Size of Government* category (147th).

How to classify the Chinese economy?

Graaff (2020) puts it best: "Many volumes, special issues and articles have been devoted to try and define and understand the particular kind of capitalism China [represents], and a multifold of different conceptualizations have been put to the fore, from Sino-capitalism […] to state-permeated capitalism […] and state-directed capitalism […]."

Roberts (2022), writing from a Marxist point of view, asks how to categorise a transitional economy that is moving from capitalism to socialism. Among those 'defining characterisations' he lists "[t]he loss of state power by capital […], [t]he common ownership of the bulk of the means of production and credit [and] [t]he planning of investment and production rather being than left to market forces" (181). Judging by Roberts' taxonomical pillars, China's transformation over the last 40 years appears to be firmly moving towards a capitalist system.

The author concedes, in his opening remarks, that "[b]ased on those criteria, China is not a capitalist economy; its phenomenal economic success is the product of a predominantly state-owned and directed economy clearly distinct from capitalist economies" (180).

Indeed, the assessment that the state is a central actor in China's economic affairs appears undisputed: "the party-state must itself be understood as a central component of the new Chinese capitalism", as Ten Brink (2019, 48) states. It is worthy to point out that such considerations are by no means limited to analyses of the Chinese economy. Rather, the question of how economies differ is as old as the scholarly field of political economy itself. Furthermore, a 'varieties of capitalism' (VoC) literature, mostly appreciated within heterodox circles, has forcefully emerged in the 2000s.

One branch of this literature focuses on agency to determine and evaluate the structure of an economic system. Ten Brink (2019) does so for the case of China by following Hall and Soskice (2001) who helpfully introduce a dichotomy between 'liberal market economies' (LME) and 'coordinated market economies' (CME). "[These] constitute ideal types at the poles of a spectrum along which many nations can be arrayed" (8).

In LMEs, enterprises make use of hierarchies and competitive market relationships. The latter are "characterized by the arm's-length exchange of goods or services in a context of competition and formal contracting" based on price signals. In contrast, "the equilibria on which firms coordinate in coordinated market economies (CMEs) are more often the result of strategic interaction among firms and other actors". Enterprise decision making, including contracting, is thus more heavily relation-based (Hall and Soskice 2001, 8).

4. Conclusions, implications, and directions for the future research

Our investigation has shown that the classification of economic systems has a long and well-established tradition. At the same time, systems classification, and certainly a classification based on enterprise ownership and control, has not become a mainstay of epistemology in economics. Within the dominating neoclassical framework these issues simply tend to be whisked away with a reference to underlying core assumptions and 'first principles'.

Given that each country has both its distinctive (historical) path traversed and, equally, its own future to create, this is an astounding state of affairs. Cultures, capabilities, institutions and means, in fact entire policy option sets vary across nations.

Comparing individual economies' respective differences in character and performance is a mainstay of economic scholarship. And yet, classifications with regards to the question: 'how influential is the state?' coupled with an analysis focusing on control is strangely lacking depth in the literature. The developmental state literature is a notable exception, albeit with limitations. This particular set of research focuses on 'enabling qualities' of the state, typically with a focus on alleviating coordination challenges. Here too, however, questions of degree of state ownership and control are barely acknowledged, never mind discussed.

Taking the People's Republic of China as a case study, we do find that she has indeed been capable in forging a successful path through multiple, and interwoven, reform agendas. This strongly aligns with the wider 'Chinese reform literature'. And indeed, this literature does not shy away from highlighting the state's role in this success story.

It was our undertaking to ask probing questions about state-controlled enterprises that go beyond a description of state-owned enterprises and collective enterprises.

Following this investigation, we purport that the degree of control by the Chinese state over enterprises is indeed a relevant characteristic of the Chinese economy. And therefore a significant variable in her widely acclaimed development trajectory.

The reasoning carried out in this text allows us to draw the following conclusions and implications.

1. China's economic growth since the late 1970s has been one of the greatest economic success stories of recent decades. However, China’s transition has not followed conventional Western formulas. First, it was not an abrupt change but by a series of strategic, gradual shifts. Second, it was characterised by a unique blend of market liberalisation, state intervention, and policy-driven globalisation. On the one hand, significant processes involved opening up to the world and reforming the internal structures of the economy, notably its state-owned enterprises. On the other hand, the Chinese government kept and still retains significant control over its major economic entities. As a result, China's economic model varies significantly from those of other countries.

2. Studies show that – compared to other economies – the share of state ownership in China's economy is extremely high. Preliminary analyses also suggest that private entities are subject to much greater influence than those in other countries. What's more, in recent years the Chinese Communist Party has fortified its role and influence in both state and private enterprises. Special Communist Party cells, with their roles enshrined in company charters, underscore the growing confluence of corporate decisions and party directives. The high level of control over enterprises is a distinctive feature of China's economic system. This is a fundamentally different model from the Western vision of an ideal market economy (i.e. one that achieves economic development and creates wealth to the greatest extent possible).

3. Creating classifications is an expression of the way we see the world and organise our knowledge about it. Economic systems can be classified according to many different criteria. However, the most important of these classifications are always a reflection of the economic reality of their time. In this framework, the twentieth century's most important criteria differentiating economic systems were the ownership of the means of production and the mechanism of resource allocation. However, both the aforementioned uniqueness of China's economy and its current role in the world economy make such a depiction less relevant and in need of updating. Updating the framework within which we analyse the economy reflects its dynamic and changing nature.

4. China's economic system is sometimes called socialism with Chinese characteristics or, conversely, capitalism with Chinese characteristics. The very fact that different authors use – depending on the semantic approach – these conflicting definitions suggests their lesser usefulness. Both concepts are very much embedded in the previous understanding of economic systems, with strong connotations for 20th century polarisation, which creates difficulties in applying them to the analysis of modern reality. However, unrealistic or even inadvisable it seems to be to abandon these concepts altogether, it would be advisable to define them more precisely than just saying "with Chinese characteristics."

5. As we point out, one criterion that could replace or complement the previous ones is the control over enterprises, which we understand as the ability to influence their decisions. It can be direct or indirect, formal or informal, and is gradable.

Such a perspective, both in terms of the theory and practice of economic systems classification and the study of the characteristics of the Chinese economy, opens many research areas worth exploring.

1. A comparative analysis with other economies, where state influence is less pronounced, can provide insights into the effectiveness of this model. It could include the implementation of state economic policy and the achievement of objective economic results (economic growth, wealth distribution, and social outcomes).

2. There is also a debate regarding whether the Chinese economic model is an attractive alternative for developing countries, and whether the Chinese authorities intend to promote its implementation actively in other countries around the world. Comparative analyses with countries like India, Brazil, Vietnam, or some African states might yield richer insights into the advantages and disadvantages of different approaches.

3. Future research should also investigate the nature and the extent of state influence on private enterprises in China. This includes the mechanisms, channels, and tools the state uses to exert such influence. For this purpose, it will be necessary to develop a methodology of systematic measurement of this control.

4. The next area is the impact on the innovation level. As China aspires to be the world's technological leader, understanding how state control of companies affects innovation and technological progress could be crucial. It is also important to study how this control can inhibit innovation, especially in the long term. There's also a need to systematically study the impact of this control on FDI; that is, understanding how international investors navigate this landscape, its risks, benefits, etc.

The classification approach to describe and analyse economic systems appears, consequentially, of value in itself, but also highlights fruitful directions for research endeavours.

Accepting that the degree of state control over enterprises is of relevance carries various implications. It allows to differentiate China's economy based on a classifying taxonomy. Furthermore, it enables us to transfer our understanding to other countries. It follows that our classification-centered approach may also serve for comparative analyses. Such a comparative research undertaking may take the form of country case studies, but should be extended to more quantitative means of analysis.

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- Listing/discussion of deficiencies
- Listing/discussion of follow-up questions/research

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