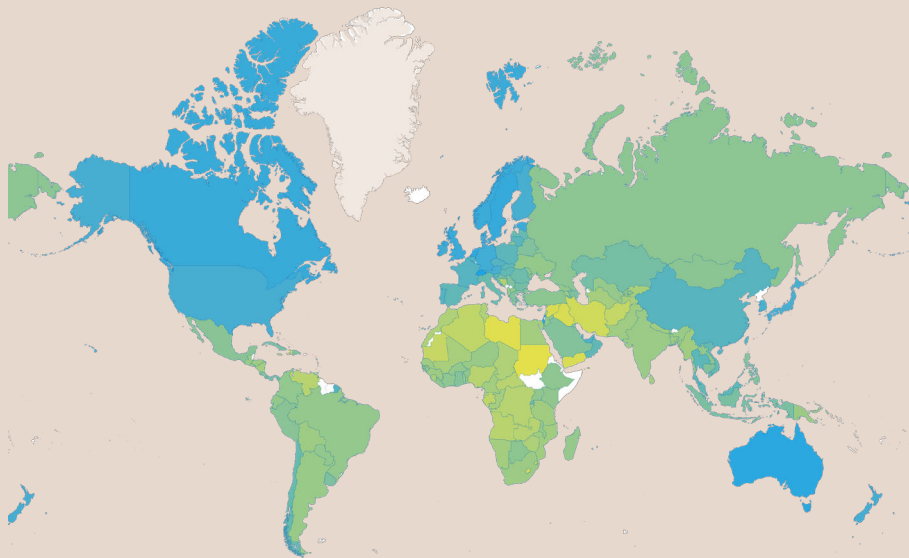# ELITE QUALITY INDEX
EQx2022

This PDF includes a contribution from the following book:

ELITE QUALITY
REPORT 2022

China: A powerful elite system keeps on delivering value, with state capacity deeply rooted in history

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China: A powerful elite system keeps on delivering value, with state capacity deeply rooted in history

China's EQx2022 score is astonishingly high (rank # 27) for a middle-income country and reflects the value creation of its elite business models. While high Elite Quality points to future growth, China's strong EQx ranking might be puzzling to Western pundits already surprised by China's emergence as a global economic power over the past 40 years.

In 1978, the senior leader, Deng Xiaoping, decided to adopt the policy of reform and opening up, which completely transformed China's economic landscape. During the 1980s, and well into the 1990s, the West welcomed the changes in China as a positive development and was generally optimistic about China's fast integration into the global economy. The US normalized relations with China, committed to promote bilateral trade, and supported the involvement of American businesses in China's economy. However, a decade ago, the international community, again led by the US, dramatically reversed course as perceptions of the possible economic and geopolitical threats posed by China's economic success began to rise. China accounted for 10% of the global economy in 2012, and today that figure has increased to 18%, second only to the US. As China's economy has continued to expand it has also become clear that its growth model is essentially distinct from that of the West. Moreover, China's model is questioned in the West as being irreconcilable with the values of freedom and democracy, and a potential threat to American global preeminence. During the presidency of Donald Trump, the US changed its 40-year-old engagement policy towards China and redefined the US-China relationship as that of rivals, not partners. The US is now intent on containing and isolating China to slow its rise and rapid technological advancement (RND, ii.6, rank # 14).

Again, the fundamental reason why the West is uncomfortable with China's economic rise, and hence has become hostile to it, is that China's political economy and its performance is a puzzle that cannot be properly understood through the lens of mainstream economic and political theories. The EQx provides a framework that can contribute to a better understanding China's model, as it links elite business models to Power and Value Creation in the political economy.

In the EQx's Political Power Index Area, China ranks rather poorly (i, rank # 60) because its political elites are exceedingly powerful. Nevertheless, power can hypothetically be used responsibly to create value. The Chinese model is indeed characterized by economic prosperity along with state dominance (Regulatory Capture, i.1, rank # 55). This mixture has caused a significant amount of confusion among Western economists because it is hard to theoretically explain a model based on state industrial policy that leads to sustained and inclusive economic growth and development. But China's growth track record is irrefutable and the EQx shows an extremely high score for Political Value (iii, rank # 9). In short, China's political domain creates value for society. This is shown in the component constructs of the EQx: In the Giving Income Pillar, covering Indicators on education such as *PISA Mean Scores* (PIS, iii.7, rank # 1), *COVID-19 vaccination and mortality* rates (VAX and COM, iii.7, ranks # 5 and #1 respectively) or optimal *General government expenditures as percentage of GDP* (GEX, iii.7, rank # 1), China scores exceptionally highly. In the Taking Income Pillar (iii.8, rank # 6), addressing Indicators related to public security (*Homicide rate*, HOM, iii.8, rank # 11), taxation (*Corporate tax rate*, DCT, iii.8, rank # 6) or public welfare (*Death rates from substance abuse*, SUB, iii.8, rank # 57) the country also fares well. The EQx framework provides empirical support for the hypothesis that powerful Chinese elites bring about economic prosperity through state capacity. Of particular interest is the relative performance of economic elites: The Economic Value Index Area (iv, rank # 32) is not as high as its Political Value (iii, rank # 9) counterpart.

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Western analysts tend to exaggerate the role of the extractive state and see it as a Leviathan with a taking hand, downplaying its flourishing role as the helping hand. Interestingly, China's powerful state is not only a driver of China's economic success, but also an agent of change. China's system adapts and adjusts to changing external conditions and constraints (although the *Government responsiveness to change*, RTC, i.1, at rank # 44 could still be higher). What is essential is that the powerful economic elites—as evidenced by the low Coalition Dominance ranking (ii.4, # 138)—are not untouchable, but quite the opposite. This is also shown in the Creative Destruction Pillar where China enjoys a rather high score (ii.6, rank # 6). China's elite system supports a dynamic, Schumpeterian process of economic development and renewal. In fact, one must understand that the Chinese model and the agency of its elites is deeply rooted in tradition. Foreigners would not be so surprised at the peculiarities and the working model behind China's rise if they had a better understanding of the country's long history and its state formation some millennia ago.

As historian Ray Huang said, China is a politically precocious country and finished the process of becoming a modern state 1,500 years before Europe did. Both Huang and Francis Fukuyama were amazed by the exceptionally short feudal reigns by the Chinese aristocracy. The reason was security: the tiny kingdoms that preceded empire were uncapable of resisting frequent invasions from the northern nomads and could not manage natural disasters such as floods. The first Emperor, Qin Shi-huang, had high legitimacy for his political unification project to create a powerful, centralized regime, the antecedent of today's modern governance as defined by Max Weber. That includes a bureaucratic system based on impersonal selection and incentives incorporated into a well-developed taxation system. In comparison, Europe did not start a similar political modernization process until the 15th century. Nonetheless, China's political precocity stifled societal vitality and the rise of economic power and civilian merchants, whereas in fragmented Europe, merchants were already powerful before its centralized states consolidated. The kings of Europe could not eliminate these economic elites, and even had to rely on them to fight against their political rivals, the local nobility. That is essentially the reason why capitalism could not emerge in ancient China despite its modern state institutions. The result was the so-called 'Great Divergence', as the West industrialized first and overtook China.

After Qin's unification, thanks to its huge population and efficient bureaucratic system, successive Chinese empires experienced long periods of prosperity and amazing developments in science, technology, and culture. However, and perhaps out of complacency, China sealed itself off from the rest of the world for hundreds of years, which led to its gradual decline. China's experience in the past 40 years demonstrates that it will grow economically if it has the willingness and chance to integrate into the global capitalist system. That process is still ongoing and the road ahead in terms of openness is still long as various EQx Indicators show: *Trade freedom* (TRF, iv.10 rank # 80), *Barriers to FDI* (BTF, iv.10, rank # 69) or *Economic globalization* (EGL, iv. 10, rank # 104).

China has a long history, and its cultural and institutional legacies are conducive to the quick rise of its economy. The family emphasis on educating the next generation and the higher propensity to save can both be traced back to Confucian traditions. China also owes much of its success to its intelligent state and robust state capacity which includes an efficient bureaucratic system. Today, many economies find growth elusive because incompetent and weak states cannot prevent capture from interest groups or suffer from rampant corruption. Therefore, for any theory of economic development to make sense in applied terms, it must endogenize the behavior and role of political elites along with the principles of the market economy. In this context, the historical viewpoint of state capacity must not be obviated.

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China

EQx2022 Country Scorecard

Population	1'402 million
GDP (nominal)	14'723 billion USD
GDP per capita	10'533 USD

Level 1 – Index

EQx Rank / 151	EQx Score
27	57.9

Quality Elites

Level 2 – Sub-Indices & Index Areas

EQx Sub-Indices

	Power	Value
Rank / 151	27	23
Score	57.5	58.1

EQx Index Areas

	Political Power (i)	Economic Power (ii)	Political Value (iii)	Economic Value (iv)
Rank / 151	60	14	9	32
Score	50.9	60.8	61.0	56.6

Level 3 – Pillars

	Pillar	Rank / 151	Score
Political Power (i)	State Capture	72	48.7
	Regulatory Capture	55	51.8
	Human Capture	70	52.4
Economic Power (ii)	Coalition Dominance	138	35.3
	Firm Dominance	62	53.9
	Creative Destruction	6	73.3
Political Value (iii)	Giving Income	2	71.7
	Taking Income	6	67.3
	Unearned Income	133	38.4
Economic Value (iv)	Producer Value	110	41.1
	Capital Value	14	62.5
	Labor Value	32	63.3

Radar chart: EQx2022 Average vs China
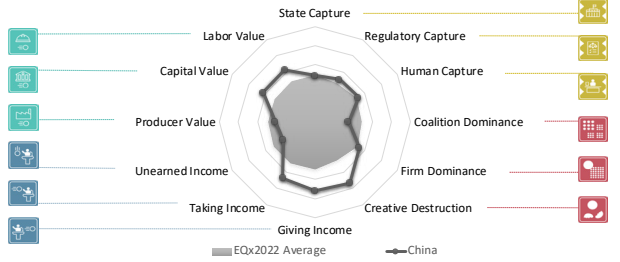
Level 4 – EQx Indicators

	Code	Indicator	Rank / 151	Score
State Capture (i.1)	COR	Political corruption	49	60.2
	MOB	Social mobility (upward)*	75	40.9
	MOD	Social mobility (downward)* (n)	50	54.2
	PDE	Political decentralization	120	23.3
	ADE	Administrative decentralization	14	80.6
	PGL	Political globalization	25	77.9
	WPI	Women's Power Index	130	25.3
	RTC	Government's responsiveness to change	44	59.4
	EPR	E-Participation Index	9	83.9
	PFD	Press freedom	144	0.0
	COC	Control of corruption	57	52.2
	OPG	Open government	79	33.0
	NJK	Nr. of journalists killed per 1 million people (2yrs avg.) (n)	1	58.2
Regulatory Capture (i.2)	REQ	Regulatory quality (n)	56	48.8
	CRO	Crony capitalism	34	57.1
	ECR	Ease of challenging regulations	32	70.1
	EDB	Digital institutional quality	39	13.3
	PRI	Property rights	55	56.1
	INO	Informal output as a % of GDP (n)	5	92.4
	CGP	Constraints on goverment power (n)	107	15.0
	REN	Regulatory enforcement (n)	65	41.6
Human Capture (i.3)	GSI	Global Slavery Index	50	62.6
	WBL	Women, business and the law	92	48.7
	LIN	LGBT+ inclusiveness	82	41.0
	GRI	Religion - Government Restriction Index	146	0.0
	SHI	Religion - Social Hostilities Index	22	74.9
	WSB	Women self made billionaires	5	96.6
	HRI	Human Rights Index	148	10.6
	FDP	Forcibly displaced population as % of population	58	56.2
	AFI	Academic Freedom Index	137	3.6
	FLS	Financial Literacy Score (n)	89	34.2
	WMA	Prop. of women in senior and middle mgmt. positions* (n)		
Coalition Dominance (ii.4)	IEE	Top 3 industries exports as % of exports	63	45.2
	ECI	Economic Complexity Index	27	76.5
	IVA	Top 3 industries as % of VA		
	CON	Construction as % of GDP*	46	7.7
	MIL	Military expenses as % of GDP*	111	45.9
	UNI	Unionization rate*	84	13.1
	CBC	Collective bargaining coverage	48	45.2
	BSN	Barriers in service & network sectors	44	6.4
	PUE	Public employees as a % of total employment (n)		
	CRA	Criminal actors (n)	103	37.3
Firm Dominance (ii.5)	SME	SMEs per 1,000 people		
	BIW	Billionaires' wealth as % of GDP	133	27.6
	FKG	Top 10 firms market cap as % of GDP	45	52.8
	FRG	Top 3 firms revenues as % of GDP	27	57.5
	FRR	Top 30 firms revenues as % of GDP	25	61.5
Creative Destruction (ii.6)	TUL	Listed firms turnover, long run 15 yrs	1	96.8
	TUS	Listed firms turnover, short run 3 yrs	1	91.3
	ENT	Entrepreneurship	29	66.7
	VCK	Venture capital finance	14	69.9
	RND	R&D as a % of GDP	14	81.4
	EXR	Firm exit ratio		
	BCD	Billionaire's creative destruction	14	64.1
	IWE	Index of Women Entrepreneurs	19	63.2
	VCA	Venture capital availability	10	87.8
	GSE	Governmental support to entrepreneurship	12	84.1

	Code	Indicator	Rank / 151	Score
Giving Income (iii.7)	SNT	Subsidies and transfers as % of expenses		
	REG	Regional redistribution as % of government budget	71	57.0
	EDU	School life expectancy		
	GPS	Expenditure on general public services as % of GDP*	32	56.0
	INT	Internet access	69	60.4
	NRI	Network Readiness Index	26	73.0
	LEW	Life expectancy women	46	63.7
	LEM	Life expectancy men	37	65.5
	FSQ	Global Food Security Index - availability, quality & safety	2	93.8
	COV	COVID-19 excess deaths, age-adjusted		
	COF	COVID-19 fatality rate, age-adjusted	102	50.2
	COM	COVID-19 mortality rate, age-adjusted	1	72.3
	CLS	COVID-19 lost schooldays	21	79.4
	VAX	COVID-19 vaccination rate (n)	5	86.9
	OSI	Online Service Index	11	80.9
	UNV	Top universities (n)	49	40.0
	PIS	PISA mean scores (n)	1	100.0
	GEX	General government expenditure as % of GDP* (n)	1	74.4
Taking Income (iii.8)	DCT	Corporate tax rate*	6	76.2
	HOM	Homicide rate	11	83.5
	INE	Top 10% share of pre-tax national income	50	59.7
	FDE	Fiscal decentralization	5	94.9
	DTR	Tax revenue as % of GDP*	29	71.4
	BRD	Battle-related deaths per 100,000 people	1	54.2
	GCI	Global Cybersecurity Index	39	74.1
	SUI	Suicide rate per 100,000 people	83	54.3
	SUB	Death rates from substance use per 100,000 people	57	59.8
	DPS	Delta public vs private sector salaries (n)		
	GEG	Gender education gap (n)		
Unearned Income (iii.9)	EPI	Environmental Performance Index	103	34.2
	DBT	Government debt as % of GDP	91	50.0
	NRR	Natural resources rents as % of GDP (n)	64	51.8
	CDO	CO2 emissions (metric tons per capita) (n)	101	26.3
	CRM	Criminal markets (n)	112	29.5
Producer Value (iv.10)	TRF	Trade freedom	80	47.7
	FDS	FDI inflows as % of GDP, stock	138	41.3
	BTF	Barriers to FDI	69	24.6
	EGL	Economic globalization	104	30.9
	HEI	Health Efficiency Index	10	75.1
	OFB	Open for business	57	36.7
	ESG	ESG company scores	45	21.3
	RDR	R&D as % of revenue Top 10 firms	19	52.7
	FSA	Global Food Security Index - affordability	49	62.0
	PAT	Nr. of patent applications per 100,000 people	1	100.0
	IPM	% of imports targeted by protectionist measures (flow)	143	0.0
	IPS	% of imports targeted by protectionist measures (stock) (n)	67	0.0
	DGI	% of discr. govt. interventions as % of total interv. (flow) (n)	128	33.1
	DGS	% of discr. govt. interventions as % of total interv. (stock) (n)	64	57.6
Capital Value (iv.11)	DNI	Neutral interest rate*	1	64.1
	DOI	Inflation*	1	54.9
	GOL	Gold demand as % of GDP	15	54.2
	DMA	M&A as % of investment - 3 yrs rolling avg.*	45	49.8
	DKI	Delta capital gains tax vs income tax	90	26.5
	UNC	Unicorns per 1 million people	15	64.7
	BSG	Billionaires self-made nr. per 1 million people	18	54.1
	BSM	Billionaires self-made as % of total billionaires	14	80.3
	FMI	Financial Markets Index	16	86.2
Labor Value (iv.12)	UEM	Unemployment rate	57	63.1
	LFP	Labor force participation rate	39	64.1
	WLP	Delta real wage vs labor productivity increases		
	YUN	Youth unemployment rate	66	60.8
	BRN	Human flight and brain drain	38	67.3
	LFR	Labor force participation ratio - male vs female*	68	60.0

* Calculated as the deviation from a conceptual optimum
(n) Refers to Indicators newly incorporated in the EQx2022

The Elite Quality Report 2022 (EQx2022) provides Country Scores and Global Rankings for 151 countries
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