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China: Socialism with Schumpeterian Characteristics — Institutions, Innovation, and the Politics of Creative Destruction

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China: Socialism with Schumpeterian Characteristics —

Institutions, Innovation, and the Politics of Creative Destruction

Leonardo Burlamaqui[1]

Abstract

This paper contends that contemporary China is profoundly mischaracterized when reduced to the labels of "state capitalism" or "market socialism." Instead, it argues that China constitutes the closest real-world approximation to Joseph Schumpeter's theoretical vision of socialism. For Schumpeter, socialism did not mean abolishing markets or private property, but reorganizing capitalism through centralized planning, the socialization of investment, and the bureaucratic management of innovation. Creative destruction would not vanish but be harnessed by public authority, while competition itself could be intensified under bureaucratic pressure.

China, since Deng's reforms, illustrates this dynamic. Through governance rooted in political meritocracy, reinforced by Party-state planning and state-directed finance, innovation is fostered while rivalry remains alive. Case highlights of Huawei, Tencent, and State Grid demonstrate how firms thrive under both state scaffolding and fierce competition, embodying managed creative destruction. Policy initiatives, and institutional innovations, such as "new qualitative productive forces" and "common prosperity" are assessed not only by aggregate GDP growth but by their capacity to deliver public goods: universal health coverage, mass education, advanced infrastructure, and poverty elimination.

Equally important, Schumpeter's minimalist definition of democracy—as leadership selection through vote-seeking—is complemented by his lesser-known transformative dimension, in which democracy and legitimacy derives from delivering material progress and improved life conditions. Seen through this lens, China's governance model can be read as procedurally minimalist but substantively transformative.

The implications extend beyond China's borders. By projecting infrastructure, technology, and institutional practices outward, China challenges neoliberal capitalism's universalist claims and offers an alternative development model. The paper concludes that China embodies a Schumpeterian type of socialism in practice.

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A new synthesis where planning and competition, meritocracy and Party authority, relentless competition and redistribution coexist. In short: China represents Socialism with Schumpeterian Characteristics.

Key words: Schumpeterian Socialism; China Model; Managed Creative Destruction; Political Meritocracy; Transformative democracy, New Qualitative Productive Forces, Socialization of Investment; Common Prosperity.

JEL Classification: O25; O30; P16; P21; H41; D72

1. Introduction

Debates over China's political economy remain mired in inadequate labels such as "state capitalism" or "market socialism" [2]. These capture fragments of reality but miss the deeper institutional synthesis driving China's transformation into the world's most dynamic large economy. This paper advances a different interpretation: China represents the closest real-world approximation of Joseph Schumpeter's conception of socialism.

For Schumpeter, socialism did not abolish markets or private property but reorganized capitalism through bureaucratic planning, socialized investment, and institutionalized innovation. Creative destruction would not vanish but be disciplined and harnessed by public authority, while competition itself could be intensified under bureaucratic pressure. China today illustrates this logic: state-led planning and finance scaffold innovation, while intense domestic and global rivalry sustains dynamism.

Equally important is Schumpeter's redefinition of democracy. In Capitalism, Socialism and Democracy (1942), he stripped democracy of its normative aura, reducing it to leadership selection through vote-seeking[3]. Yet, as John Medearis (2001) shows, Schumpeter also pointed toward a transformative conception of democracy, in which

[2] In China, the prevailing label is 'Socialism with Chinese Characteristics'—a designation that, obviously, carries some empirical resonance yet offers little in terms of theoretical rigor.

[3] Schumpeter's redefinition of democracy must be read against his critique of the classical liberal model. He rejected the idea of a "common will of the people" as a fiction, insisting that citizens were neither informed nor engaged enough to exercise genuine rule. In his view, democracy was not the realization of popular sovereignty but a method for selecting leaders: politicians were entrepreneurs, competing for votes much as firms compete for customers. This undercut the normative pretensions of liberal democracy, recasting it as a mechanism for leadership circulation rather than an expression of collective will (1942, Ch.21). Given its contemporary resonance, it is striking that Schumpeter's critique is so rarely invoked in today's debates on the "crisis of Western liberal democracy." The essential arguments were already laid out in Chapter 21 of Capitalism, Socialism and Democracy.

legitimacy depends on delivering material progress, equality of opportunity, and improved life conditions[4].

The paper develops this argument across three layers: (1) China's politico-institutional architecture, combining Party-led meritocracy, bureaucratic planning, and socialized investment while preserving competition; (2) firm-level cases such as Huawei, Tencent, and State Grid, which embody managed creative destruction; and (3) policy outcomes in education, health, infrastructure, poverty alleviation, and green transition, framed under "new qualitative productive forces" and "common prosperity."

These findings suggest far-reaching implications: China reframes Schumpeterian structural transformation by placing an Entrepreneurial State at the "commanding heights." (Burlamaqui, 2020). Democracy is also redefined—not as procedure, but as the substantive provision of economic and social rights. In short, China has become a laboratory for Schumpeterian socialism in practice: Socialism with Schumpeterian Characteristics.

2. Schumpeter's Conception of Socialism

In Capitalism, Socialism and Democracy (1942, 1950), Schumpeter redefined socialism not as the negation of capitalism but as its organizational transformation. He envisioned a system in which planning authority coordinated economic activity through a central body, while innovation was increasingly managed by firms, bureaucracies, and state institutions rather than by heroic entrepreneurs. Far from eliminating rivalry, socialism would preserve competition—indeed, under bureaucratic pressure it might even intensify. Democracy, in turn, was reinterpreted in "minimalist" terms: a method of leadership selection in which candidates function as political entrepreneurs competing, for votes [5] in a political marketplace

[4] "In this study I challenge the standard view that the elite conception of democracy as a method was Schumpeter's only definitive statement on the subject. From about 1916 onward, Schumpeter theorized about democracy in two distinguishable ways.... over the course of thirty years, and in a variety of works that include Capitalism, Socialism, and Democracy, Schumpeter also developed a different conception of democracy as a real historical tendency implicated in social transformation" (Medearis, 2001, p. 3-4). However, Medearis's 2001 book title Schumpeter's Two Theories of Democracy is somewhat misleading. Schumpeter never explicitly elaborated a "second theory." What he did, in scattered passages—most notably in Chapter V of CSD—was to sketch a compelling vision of capitalism as a system of mass production and distribution in which the gains of productivity, efficiency, and quality eventually reached broad layers of the population. This perspective can be interpreted as a form of "performance-based" democracy, grounded in material outcomes rather than political procedures.

[5] In the Chinese case, leadership selection is structured not through competitive, vote-seeking, elections but through institutionalized evaluations of governance capacity and performance legitimacy, typically assessed over many years or even decades. This functions as an analogue to

(Schumpeter: 1942.p 269). In this sense, Schumpeter's definition underscores the essentially non-democratic character of democracy: it is a mechanism for choosing rulers, not a vehicle for popular sovereignty

Yet, as John Medearis (2001) has argued in Schumpeter's Two Theories of Democracy, Schumpeter also gestured toward a broader, "transformative" understanding of democracy—one grounded in capitalism's capacity to deliver improved life conditions through social transformation. Both dimensions—the procedural and the developmental—can be read as compatible with, and even reinforced by, Schumpeter's vision of socialism as an organizationally rationalized and innovation-driven order[6].

This dual conception resonates strikingly with China's present discourse on 'new quality productive forces' and 'common prosperity,' where procedural governance and developmental legitimacy are explicitly intertwined. Later sections (especially Section 6) provide empirical grounding for this dual conception in the Chinese case.

Furthermore, and contrary to Marx, Schumpeter did not equate socialism with the abolition of private property, resulting from a proletarian revolution. For him, socialism meant something else entirely: "A system, an institutional pattern, in which the control over the means of production and over production itself is vested with a central authority—or, as we may say, in which, as a matter of principle, the economic affairs of society belong to the public and not to the private sphere." (Schumpeter: 1942, 167). For Schumpeter, socialism was not the abolition of capitalism's dynamics but its reorganization. Creative destruction, far from vanishing, could be

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Schumpeter's competitive elections for votes, insofar as it establishes a systematic, competitive mechanism for leadership renewal and accountability (Whiting 2004; Landry 2008).

[6] A vivid illustration of Schumpeter's "developmental" or "transformative" conception of democracy can be found in his famous remarks: "Queen Elizabeth owned silk stockings. The capitalist achievement does not typically consist in providing more silk stockings for queens but in bringing them within the reach of factory girls in return for steadily decreasing amounts of effort" (1942, p. 66). He reinforces the point with another striking comparison: "There are no doubt some things available to the modern workman that Louis XIV himself would have been delighted to have yet was unable to have—modern dentistry for instance" (ibid., p. 67). These passages exemplify what John Medearis later identified as Schumpeter's second, "transformative" theory of democracy, in which legitimacy derives from capitalism's capacity to generate broad material improvements rather than from electoral procedure alone (Medearis, 2001, Ch. 2). It is important to clarify, however, that Medearis's account of Schumpeter's "transformative" democracy emphasizes the reshaping of institutions and enduring social structures (2001, p. 209) more than their material basis. My own reading restores that material dimension: the structural transformation of the economy driven by competition through innovation. This, I argue, is fully consistent with Schumpeter's own writings, as the passages above make clear

institutionalized and disciplined under socialism (Schumpeter, 1942 Ch17; Burlamaqui, 2015, 2020, 2023).

The key inference from Schumpeter's definition is that when the economic affairs of society are located in the public rather than the private domain, the state becomes the ultimate custodian of capital. This position allows the state to define, and redefine, time and again, the terms of engagement between state and market, and to assert the primacy of public over private interests. Such an insight is indispensable for grasping the trajectory of China's structural transformation, from Deng Xiaoping's reforms to Xi Jinping's consolidation[7] [8].

Framed in these terms, socialism held clear advantages over capitalism for Schumpeter. First, Capitalism's early hallmark—the 'solo' innovative entrepreneur—was already giving way to large corporations in which innovation became bureaucratized[9]. As entrepreneurial dynamism was absorbed by skilled bureaucrats and managers, Schumpeter argued, socialism could take this transformation further: so long as competition was not extinguished but institutionalized, it could rationalize and direct innovation more effectively than corporate capitalism itself[10].

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[7] Deng's creation of Special Economic Zones, Zhu Rongji's comprehensive restructuring of the banking system and state-owned enterprises, Xi Jinping's launch of the Belt and Road Initiative, the recent regulatory crackdown on real estate, and the redirection of big tech from consumer markets to strategic sectors are vivid illustrations of this ongoing process of market shaping and reshaping. (For good accounts of these dynamics, though without reference to Schumpeter or any other theoretical framework, see Vogel 2011; Economy 2018, Weber 2021; Naughton 2021; Zhang; 2024, Rudd 2024).

[8] One glaring omission in most Western accounts of Xi Jinping's "rupture" with China's past political and economic architectures is the figure of Wang Huning. Arguably the most influential "organic intellectual" in global politics today, Wang is virtually unknown in the West. Uniquely, he entered politics directly from academia in 1995 and has remained at the heart of China's leadership ever since. He has advised Jiang Zemin, Hu Jintao, and Xi Jinping, and helped craft Jiang's "Three Represents," Hu's "Scientific Development," and Xi's "China Dream" and "Common Prosperity." His book America Against America (1991), written after less than a year in the United States, offered a Tocquevillian-style critique of American society whose relevance is striking today (Gideon Rachman, writing in the Financial Times in August 2025, asserts its relevance, but no word about Wang's trajectory). Now a member of the Standing Committee, China's highest decision-making body, Wang exemplifies continuity across three decades of leadership. Seen in this light, China's governance appears more evolutionary than ruptural — and Wang Huning is the thread stitching it together.

[9] This is not to suggest that the age of the solo entrepreneur vanished—pace Gates, Jobs, or Bezos—nor did Schumpeter predict it would. His point was rather that their relative weight declined: individual entrepreneurs ceased to be the exclusive or dominant locus of innovation, as corporate bureaucracies, research laboratories, and state institutions became central engines of technological change.

[10] And the whole of our argument might be put in a nutshell by saying that socialization means a stride beyond big business on the way that has been chalked out by it or, what amounts to the same thing, that socialist management may conceivably prove as superior to big-business

Second, planning authority would allow investment and production to be directed toward collective priorities, reducing the waste and duplication inherent in markets "self-regulation"[11] . Third, socialism promised greater stability by containing the cyclical crises and financial fragility that capitalism inevitably generated[12] [13]. Fourth, by institutionalizing redistribution, socialism could address the inequalities that eroded capitalism's legitimacy[14].

Finally, Schumpeter's case for socialism's potential superiority also gains clarity in contrast with Marx and Weber. Against Marx's revolutionary abolition of private property and class emancipation, Schumpeter envisages a managerial reorganization that absorbs entrepreneurship into bureaucratic structures without extinguishing competition (Marx: 1867 [1970], 1875, [1976]). In dialogue with Weber's skepticism—his warning that rational-legal bureaucracy risks ossification, suppressed pluralism, and the 'iron cage' (Weber:1918 [1994])—Schumpeter counters that bureaucratic coordination can, under the right institutional design, internalize innovation and direct investment more rationally than markets alone.

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capitalism as big-business capitalism has proved to be to the kind of competitive capitalism of which the English industry of a hundred years ago was the prototype (1942, p 195).

[11] Schumpeter's insistence that the state could reshape, and redirect capitalism resonates with current controversies over industrial policy and strategic competition. The tension between national security and "market freedom" reflects precisely the type of boundary-setting he foresaw.

[12] This is particularly true of most of the phenomena that make up the mechanism of trade cycles. Capitalist enterprise does not lack regulators, some of which may well be met with again in the practice of the ministry of production. But **the planning of progress, in particular the systematic coordination and orderly distribution in time of new ventures in all lines, would be incomparably more effective in preventing bursts at some times and depressive reactions** at others than any automatic or manipulative variations of the rate of interest or the supply of credit can be. In fact, it would eliminate the cause of the cyclical ups and downs whereas in the capitalist order it is only possible to mitigate them (1942, p 194, my emphasis).

[13] While Schumpeter did not develop a comprehensive theory of financial crises, his recognition of capitalism's instability remains salient. The global financial crisis of 2008 and current debates on systemic risk confirm the fragility embedded in credit-based economic expansions. Hyman Minsky, a student of Schumpeter, while in Harvard, extended this insight into his "Financial Instability Hypothesis," showing how periods of stability encourage rising leverage and speculative risk-taking, until the expansion culminates in a financial crisis. This link between innovation, credit, and fragility remains central to contemporary debates on capitalism — and on socialism, as illustrated by China's own policy struggles over financial risk and economic governance (Burlamaqui, 2025b develops this point further).

[14] "There seems however to be a purely economic argument in favor of equalitarian socialism or any socialism the structure of which admits of greater equality of incomes" (1942, p 191).

The result is not the negation of capitalism's dynamics but their re-engineering: creative destruction is disciplined, investment socialized, innovation rationalized, and its diffusion greatly expanded.

3. Schumpeterian Socialism and China's Political–Institutional Structure

The Chinese Communist Party (CCP) and the state apparatus retain control over the commanding heights of the economy. Five-Year Plans, strategic long-term thinking, industrial and innovation policies, and mechanisms like the 'dual circulation strategy' exemplify planning authority in practice. State-owned enterprises (SOEs) remain dominant in energy, finance, and infrastructure. They are not relics but instruments for implementing state policy: building high-speed rail networks, renewable energy capacity, and digital infrastructure at a pace unmatched globally (Fang, Nolan, and Linggui :2019, Naughton: 2021, Chan 2022). The financial system, heavily state-owned (when not, heavily state-regulated), plays a central role. Rather than allocating capital through market metrics, and speculative purposes alone, it channels credit toward strategic priorities, such as green energy, advanced manufacturing, and technological upgrading. This 'directed credit-based-investment-finance' illustrates how planning and markets intertwine (Naughton & Tsai: 2015, Burlamaqui: 2025).

An important complement to Schumpeter's conception of socialism, when applied to the Chinese case, is the structure of political authority and leadership selection. Contrary to widespread assumptions that the Chinese system is devoid of electoral processes, there are in fact elections with genuine popular participation at the most basic level of local communities and village committees. These grassroots elections allow residents to choose local representatives, creating channels of political participation and accountability at the community level (Dickson, 2016).

Above this foundational layer, however, the system transforms into what scholars such as Daniel A. Bell, Wang Pei, and Bruce Dickson describe as a political meritocracy (Bell, and Li, eds., 2013; Bell: 2015, Bell and Pei, 2020, Dickson:2016, 2021). Meritocratic selection operates through graded performance evaluation and rotation. Cadres advance by demonstrating administrative capacity across county, prefectural, and provincial posts; by meeting targets on growth, social stability, infrastructure delivery, environmental compliance, and poverty alleviation; and trough periodic Party reviews. Advancement to the higher echelons—the Central Committee, Politburo, and ultimately the Politburo Standing Committee—depends on years (or even decades) of demonstrated administrative capacity, political maneuvering, and ideological alignment.

This 'plumbing' links promotion prospects to measurable outcomes, reinforcing bureaucratic innovation and policy execution within a centralized hierarchy (Bell,

2015; Dickson, 2021). As Bell argues, political meritocracy has both strengths and limitations compared to representative democracy. Its central advantage lies in the quality of leadership selection: rather than short electoral cycles rewarding campaign skills, and post-election promises, political meritocracy prioritizes technocratic expertise, administrative experience, and crisis management capacity. (Bell, 2015, Bell and Pei, 2020).

Bell and Pei add that this system, while far less pluralistic than liberal democracy, can generate a leadership class that is more competent in policy execution and long-term strategic planning. It institutionalizes what Schumpeter described as the rationalization of authority under socialism: bureaucratic organization of innovation and governance, coupled with mechanisms of policy coordination, and accountability internal to the Party.

Yet both authors also acknowledge limitations to political meritocracy. The system remains opaque to citizens, who cannot verify whether promotions are based on competence rather than factional loyalty. Risks of corruption and patronage persist, as personal networks may distort evaluations. Recruitment remains narrow, confined largely to Party cadres, limiting pluralism and excluding alternative perspectives. By emphasizing discipline and alignment, meritocracy can suppress dissenting or unconventional leaders. Finally, without broader electoral participation, meritocracy alone risks a legitimacy deficit—hence Bell's proposal for a comprehensive expansion of China's hybrid model of 'democracy at the bottom, meritocracy at the top.' These caveats qualify the claim that political meritocracy can, by itself, outperform genuine representative democracy[15].

In analytical terms, China's political system corresponds to Schumpeter's minimalist (or elitist) conception of democracy, in which leadership emerges not through electoral competition but through the structured evaluation and promotion of officials within a multilayered centralized apparatus.

4. China's Innovation Economy

Contrary to the Soviet model, China has built an economy where innovation thrives. State-led initiatives such as "Made in China 2025", a very successful achievement, aim to position the country at the technological frontier in robotics, AI, and biotechnology. Huawei exemplifies Schumpeterian socialism in action: a firm that competes fiercely in global markets, while benefiting from state credit lines, R&D support, and alignment with national industrial policy (State Council of the PRC: 2015, Tao, Cremer, & Chunbo, 2017, Dou: 2025).
This demonstrates Schumpeter's corrected insight: competition persists under

[15] Which should not be conflated with the Western liberal–electoral model of democracy.

socialism, but it is managed competition, disciplined by state priorities. Rivalry among firms like Huawei, Tencent, Xiaomi, Alibaba, and others is not suppressed but encouraged, ensuring that creative destruction continues under bureaucratic coordination (Proença and Burlamaqui: 2023). Across China's corporate spectrum—whether state-owned enterprises like State Grid or private giants such as Huawei and Tencent—the pattern is consistent: public funding, industrial targeting, and strategic planning are coupled with fierce competition. The following cases illustrate this dynamic.

4.1. Case Highlight (1): Huawei – From Switchboards to 5G and Electric Cars

Huawei's trajectory illustrates the dynamics of Schumpeterian socialism in practice. Founded in 1987 as a small reseller of imported switchboards, Huawei quickly transitioned into indigenous R&D with decisive state support. In the 1990s, preferential credit lines from state-owned banks and contracts with state-owned enterprises gave Huawei the stability to invest heavily in research. By the 2000s, the firm had become China's national champion in telecommunications equipment, leveraging state subsidies, tax incentives, and guidance from industrial policy (Tao, Cremer, & Chunbo, 2017, Dou, 2025).

Yet Huawei's rise was never a story of state protection alone. From its inception, the company was forced into cut-throat competition—first against foreign incumbents like Cisco, Ericsson, and Nokia, later against domestic challengers such as ZTE and Xiaomi. The CCP's industrial strategy deliberately fostered rivalry among Chinese firms rather than consolidating them into monopolies, ensuring that innovation remained relentless (Tao, Cremer & Chunbo, 2017).

By the 2010s, Huawei had emerged as a world leader in 5G networks, symbolizing China's leapfrogging to the technological frontier[16]. State financing supported long-term, risky R&D projects, while global market competition pressured Huawei to deliver at scale and at lower costs than its rivals. This combination of public fostering and market rivalry epitomizes Schumpeter's notion that competition not only survives under socialism but may intensify under bureaucratic coordination.

Today, Huawei is pushing beyond telecommunications into electric vehicles and smart mobility ecosystems, aligning with China's industrial upgrading goals under Made in China 2025. The state has again provided strategic credit and policy guidance, but Huawei's survival depends equally on its capacity to out-innovate competitors like BYD, Tesla, and Apple. Its dual reliance on state scaffolding and fierce

[16] For a reinterpretation of Schumpeter's Theory of Economic Development as a cumulative leapfrogging process, see Burlamaqui and Kattel :2016.

competition makes Huawei a paradigmatic example of managed creative destruction in China's innovation economy.

4.2. Case Highlight (2): Tencent – From QQ to the WeChat Ecosystem and Digital Infrastructure

Tencent's evolution from a late-1990s instant-messaging startup into the architect of China's dominant consumer internet platform exemplifies managed creative destruction. Beginning with QQ (1999) and online gaming, Tencent scaled by rapidly iterating products and monetization models while facing relentless rivalry from domestic and foreign incumbents. By 2011–2013 it launched WeChat (Weixin), which fused messaging, social feeds, payments, and developer-friendly 'mini-programs' into a modular, constantly evolving platform that redefined the smartphone era in China (Chen, 2022, Proença and Burlamaqui, 2023, Zhang, 2024).

State fostering was catalytic but not sheltering. Connectivity infrastructure, preferential access to payment licenses via alignment with financial regulators, and the broader 'Internet Plus' and digital-economy agendas lowered transaction costs and encouraged experimentation. Yet Tencent's position was never guaranteed: it competed fiercely with Alibaba (payments, cloud, retail tech), ByteDance (attention markets and short video), and NetEase (games). Platform rivalry, interoperability battles, and shifting API policies forced continual product innovation, aggressive investment, and ecosystem orchestration (Chen, 2022, Zhang, 2024).

Regulatory resets from 2020 onward—data security, fintech rectification, platform governance, and gaming protections for minors—reconfigured Tencent's growth model without dismantling it. The firm adapted by de-risking fintech operations, emphasizing compliance-by-design, and pivoting toward enterprise services, industrial internet solutions, and cloud/AI capabilities aligned with national priorities around 'Digital China' and high-quality growth. This illustrates socialism's bureaucratic coordination disciplining platform power while preserving competition and innovation (Chen, 2022, Zhang, 2024).

WeChat's mini-programs and WeChat Pay turned Tencent into essential infrastructure for merchants, public services, and everyday life, but the moat remains contestable. Competitive pressure from Alipay in payments, ByteDance in traffic acquisition and advertising, and NetEase in flagship game genres compels continued R&D, acquisitions, and partnerships. Tencent's trajectory—state-guided, finance-enabled, and market-disciplined—offers a paradigmatic case of Schumpeterian dynamics within China's planned yet competitive innovation system (Chen, 2022, Proença and Burlamaqui: 2023).

4.3. Case Highlight (3): State Grid — UHV Leadership and BRI Energy Connectivity

State Grid Corporation of China (SGCC) is the world's largest electric utility and a flagship state-owned enterprise. At home, SGCC led the build-out of ultra-high-voltage (UHV) AC/DC transmission and smart-grid capabilities that lowered line losses, integrated far-flung renewable generation, and enabled long-distance bulk power flows. As an SOE operating under SASAC oversight, State Grid illustrates how China's model uses public ownership and bureaucratic coordination to institutionalize innovation at grid scale while keeping cost and reliability constraints central.

Under the Belt and Road Initiative (BRI), SGCC internationalized from technology exporter to system operator and investor. In Latin America, it built Brazil's ±800 kV UHVDC Belo Monte transmission concessions (Bipoles I–II), linking Amazon hydropower to load centers over ~2,000–2,500 km—flagship examples of Chinese UHV deployed abroad (NS Energy, 2020). In Chile, after acquiring CGE in 2021, State Grid came to serve a majority share of regulated distribution customers—an anchor position that expanded its footprint across the Southern Cone's power sector (CSIS, 2024).

Fostering came from policy banks, diplomatic risk-mitigation, and BRI policy coordination, but SGCC's performance has also been shaped by rivalry and discipline. Domestically, State Grid competes in tendering and technology races with peers and suppliers; internationally, it faces auctions, regulatory reviews, and incumbents. This pattern aligns with research on 'managed competition' inside China's SOE system, where central guidance coexists with internal rivalry and performance metrics that reward efficiency, scale, and innovation (Miller: 2017, Chan, 2022).

Strategically, SGCC promotes 'Global Energy Interconnection' (GEI)—a vision of continent-spanning HV/UHV grids that facilitate large-scale renewable integration and cross-border trade—explicitly framed as complementary to the BRI. Policy studies document how GEI has been woven into BRI fora and multilateral agendas, even as on-the-ground build-out remains path-dependent and region-specific (Downie, 2020; RAND/GEIDCO, 2019).

Equally significant is how State Grid exemplifies the 'socialization of investment': large-scale grid modernization and BRI transmission projects are financed and coordinated through policy banks and state planning yet structured to remain profitable enterprises. This combination—public underwriting of systemic investment with commercial discipline—demonstrates a distinct Schumpeterian

socialist trait, where the state absorbs risk to enable transformative projects while SOEs are pressed to generate returns and sustain efficiency (Chan, 2022).

Taken together, these three cases—two private champions (Huawei, Tencent) and one SOE (State Grid)—illustrate a common pattern: state scaffolding combines with "schumpeterian competition" to produce managed creative destruction. This is the operative economic logic of China's Schumpeterian socialism.

5. Governance and Democracy

Schumpeter's thin definition of democracy—as a method for selecting leaders—offers a lens through which to view China's political system. Leadership turnover and competition occur within the CCP through institutionalized mechanisms of promotion and evaluation rather than through multiparty elections. While this diverges from liberal democracy, it parallels Schumpeter's minimalist conception of the democratic process, albeit in a highly restricted form. The tension lies in reconciling efficiency with democratic governance: planning priorities may override dissent, raising questions about long-term accountability (Bell 2015).

This tension is sharply illustrated in Richard McGregor's influential study *The Party* (2010). Where Bell emphasizes the advantages of political meritocracy, McGregor highlights its limitations. He stresses the opacity and pervasive control of the Chinese Communist Party (CCP), which complicates the narrative that leaders rise solely through competence and administrative capacity. What appears to be meritocratic promotion, McGregor shows, is often intertwined with factional loyalty, patron–client ties, and political maneuvering. The CCP's embedded dominance over all major institutions blurs the boundaries between state, market, and Party authority. Advancement thus remains subordinated to Party discipline and regime survival imperatives (McGregor, Chs. 1–3).

Corruption and factional balancing further distort the performance-based evaluations Bell highlights. Although cadres must demonstrate competence, career advancement also depends on cultivating patrons and aligning with dominant coalitions. This erodes transparency and pluralism, raising doubts about whether meritocracy alone explains leadership selection (McGregor, Chs. 3–4).

Bruce Dickson's *The Party and the People* (2021) provides a crucial complement to Bell and McGregor by shifting attention to the demand side of legitimacy. Why do citizens accept—and often endorse—one-party rule? Dickson argues that the CCP's resilience rests on a loyalty–performance bargain. The Party delivers growth, poverty

reduction, stability, and national pride; in return, citizens grant it legitimacy[17]. Unlike fragile authoritarian regimes sustained mainly by coercion, the CCP endures because it delivers. Surveys consistently show trust in central authorities, even when local governance is criticized (Dickson, Chs. 1-3).

This legitimacy is reinforced by adaptive authoritarianism: the Party experiments locally, scales up successful policies, combats corruption, and expands welfare when necessary[18]. Citizens, in this view, are not passive subjects but conditional supporters, evaluating the Party's performance against their expectations (Dickson, Ch.8)

Taken together, Bell and Dickson rebalance the debate. China is not merely an authoritarian outlier but an operationalization of Schumpeter–Medearis democracy. If democracy's essence lies in transformative capacity, then China offers a functioning variant: meritocracy supplies competent agents of transformation; performance legitimizes their rule; and innovation diffusion provides the democratic substance. This is democracy by results rather than democracy by procedure.

It fails liberal benchmarks of representation or electoral competition, yet aligns with Schumpeter's criterion: are leaders capable, and do their policies transform society? By this measure, the CCP has earned broad legitimacy. Bell explains the leadership pipeline; Dickson explains the social bargain; together they substantiate the claim that China practices a form of transformative democracy[19].

From a Schumpeterian perspective, the Chinese case reveals a structural duality. Bureaucratic organization rationalizes authority and institutionalizes competition through innovation yet simultaneously constrains political pluralism and entrenches decision-making within a Leninist party-state. Politics thus mirrors economics: genuine bureaucratic dynamism coexists with the imperative of Party control and regime preservation. In this light, Bell's defense of political meritocracy, Dickson's loyalty–performance bargain, and McGregor's critique of Party dominance should be read as complementary, *and tension-laden*, interpretations of a single hybrid order.

[17] The Chinese public is more concerned with material issues of wealth and security than normative goals of equality (Dickson, 241)

[18] "The key to the CCP's performance legitimacy is not economic growth per se, but whether people's own incomes are rising" (Dickson, 239).

[19] Perhaps most surprising of all is the reason that so few Chinese are willing to advocate for democratization—because they believe it is already happening. Repeated public opinion surveys reveal that the vast majority of Chinese believe that China has become increasingly democratic during the post-Mao period and has already attained a relatively high level of democracy (Dickson, 242).

6. New Qualitative Productive Forces and Common Prosperity

Recent Chinese policy directives highlighting the concepts of "new qualitative productive forces", and "common prosperity" are the latest manifestations of Schumpeterian socialism. New productive forces emphasize innovation-driven growth, especially in green technologies, advanced manufacturing, and digital industries. These policies reinforce the state's role in steering the economy toward the technological frontier, fostering resource's expansion, and institutionalizing creative destruction within a planned framework (Rudd: 2024, Jin, K., 2023, Atkinson: 2024b).

Common prosperity reflects a redistributional and social dimension: the state seeks to ensure that the fruits of innovation and growth are broadly shared. This dual emphasis illustrates how China integrates Schumpeterian innovation dynamics with a socialist concern for equity, making its model both dynamic and politically legitimized (Hsiung: 2015, Jin:2023).

The ultimate test lies in outcomes. Concepts such as 'new qualitative productive forces' and 'common prosperity' remain slogans unless they translate into tangible public goods and improvements in everyday life. In this regard, China has sought to frame prosperity not simply in terms of aggregate GDP growth but as the broad provision of economic and social rights—the sinews of democracy understood as progressively diminished inequality, and shared abundance for all citizens.

Concrete evidence supports this view. In education, China has undergone a remarkable transformation from an elite to a mass higher education system in barely two decades, expanding enrollment and heavily investing in STEM and vocational training. This ensures that industrial upgrading and innovation are supported by a broad base of skilled citizens, democratizing access to the benefits of modernization (Huang, and Deng, 2023, Atkinson: 2024b).

In infrastructure, China's world-leading high-speed rail network and rapid urban metro expansion provide affordable, reliable, and environmentally efficient mobility. By lowering the cost of travel and reducing regional isolation, these systems operate as public goods that enhance equality of opportunity across the country (Miller: 2017).

In health, near-universal insurance coverage was achieved during the 2010s through massive state subsidies, both in rural and urban areas. More recently, centralized drug procurement has reduced the cost of essential medicines, making health care more accessible and reducing household financial vulnerability. These advances are material manifestations of 'common prosperity.' (Meng, Yang, Chen, Sun, and Liu, X., 2015; Yip, Hsiao, Meng, Chen, and Sun, 2014, Rudd, 2024).

The poverty alleviation campaign that culminated in 2020 lifted hundreds of millions out of extreme poverty and invested heavily in rural housing, road connectivity, and digital infrastructure. Inequality, while still present, has been actively managed through redistribution and targeted social policies that extend the reach of prosperity (Ang, 2018).

Finally, the green transition exemplifies how new productive forces can create both economic dynamism and public goods. China's rapid deployment of renewables, electric mobility, and pollution control policies has delivered measurable improvements in public health while positioning the country at the technological frontier (Mathews and Tan, 2011, International Energy Agency (IEA), 2021).

This discussion of outcomes provides empirical grounding for what John Medearis (2001) identified theoretically as Schumpeter's dual conception of democracy, a conception I interpret as inseparably tied to the material basis of innovation-driven structural transformation [20] . Here, the duality in Schumpeter's conception of democracy—its minimalist, procedural dimension and its broader, developmental orientation offers a useful lens through which to interpret China's contemporary trajectory[21].

In China, democratic practice is not framed primarily in terms of multiparty competitive elections but in terms of effective governance and performance legitimacy: the state's ability to generate sustained innovation, material progress, and improved life conditions. This resonates with Schumpeter's developmental strand, while the institutional mechanisms of cadre promotion and leadership selection echo his minimalist definition.

Summing-up, from a Schumpeterian "transformative democracy's" perspective, these achievements show that creative destruction can be harnessed for broad social provision when organized through state planning and bureaucratic coordination. If 'new productive forces' and 'common prosperity' consistently deliver education, health, infrastructure, and reduced inequality, they constitute the substantive sinews of democracy: prosperity, equality of opportunity, and security for all citizens.

[20] More precisely, Medearis's interpretation is complemented here by my emphasis on the material basis of Schumpeter's 'transformative' democracy. Whereas Medearis highlights institutional and social change (2001, p. 209), my reading restores the economic foundation Schumpeter himself stressed: structural and social transformation anchored in the democratization of goods and services, driven by continuously rising productivity through the diffusion of innovation.

[21] In Schumpeter's Two Theories of Democracy (2001), Medearis does not discuss China, but he provides a detailed analysis of the New Deal in the United States as a concrete case of transformative democracy (Ch.3).

7. Implications

The cumulative evidence from the case highlights (Huawei, Tencent, State Grid), the institutional analysis of political meritocracy, and the substantive outcomes associated with new productive forces and common prosperity suggests important implications for understanding China's political economy through a Schumpeterian lens (Burlamaqui, 2020; Jin,2023)

First, the standard labels of 'State Capitalism' or 'Market Socialism' are inadequate. The case studies show a system where state fostering, and fierce competition coexist within a framework of bureaucratic coordination. This amounts to a form of managed creative destruction that differs fundamentally from both neoliberal market models and Soviet-style command economies.

Second, China's political meritocracy aligns closely with Schumpeter's conception of socialism as rationalized authority, standing in marked contrast to the electoral foundations of liberal democracy by prioritizing competence, experience, and long-term planning over short-term electoral appeal. By selecting leaders through performance evaluation and administrative experience rather than short electoral cycles, the Chinese system sustains long-term industrial strategies and capacity for bureaucratic innovation. Yet, as Richard McGregor cautions, this system remains embedded in Party discipline, factional politics, and opacity, which complicates claims, by Bell for example, to be predominantly meritocratic.

Third, the socialization of investment while preserving profitability, exemplified by State Grid's UHV and BRI projects, provides a distinctive institutional innovation. Here, large-scale projects that markets alone would not finance are underwritten by state banks and planning institutions, while SOEs are required to maintain commercial discipline. This is Schumpeter's socialism in practice: the rational organization of capitalism's investment function through a highly strategic Entrepreneurial State (Burlamaqui: 2020).

In sum, China provides the most significant real-world case for Schumpeter's thesis that socialism can be innovative, efficient, and competitive. Creative destruction is alive but managed, as innovation occurs under fierce competition, but through the guidance of planning authorities. State-owned enterprises and the financial system serve as instruments of state strategy, channeling capital toward infrastructure and structural transformation-rather than acting, in Minsky's sense, as engines of speculation and financial instability (Minsky: 1982)[22]. Competition not only persists

[22] Although episodes of financial fragility have emerged—during the 1980s and 1990s, in the aftermath of the 2008 Western financial crisis, and more recently in the 'Evergrande turmoil'—

but often intensifies under bureaucratic pressure, confirming Schumpeter's nuanced view.

Finally, the policies of 'new qualitative productive forces' and 'common prosperity' show how China continues to refine Schumpeter's model for the twenty-first century, challenging both Marxist-Leninist expectations of state withering and neoliberal claims that markets alone are superior for fostering innovation and sustainable growth[23].

8. Conclusion

China's trajectory illustrates how Schumpeter's analysis can be reactivated in the twenty-first century. Socialism, in Schumpeter's terms, was never the simple negation of capitalism but its organizational transformation—an economy where innovation and competition persist yet are coordinated through bureaucratic planning and state direction. Contemporary Chinese policies around new qualitative productive forces and common prosperity embody precisely this synthesis: creative destruction managed within a planned framework and directed toward broad social provision.

At the same time, the Chinese case sheds light on Schumpeter's dual conception of democracy. In its minimalist form, democracy is framed as a mechanism for leadership selection, compatible with socialism so long as bureaucratic authority and performance-based progression are preserved. But as Medearis has shown, Schumpeter also hinted at a broader, transformative understanding of democracy—one in which legitimacy flows from the system's ability to deliver material progress, equality of opportunity, and improved life conditions. China's discourse and practice around common prosperity resonate strongly with this second conception, substituting performance legitimacy and developmental outcomes for procedural electoralism.

In this sense, China's current experiment is not only a real-world approximation of Schumpeter's theoretical socialism, but also a striking instantiation of his 'transformative democracy': a political economy where legitimacy derives from innovation-driven growth and the broad distribution of its fruits, rather than from electoral competition alone. In short: China is a Socialism with Schumpeterian Characteristics.

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none has escalated into full-blown financial instability in the Minskyian sense." (Rongji, 2013Tooze: 2018, Yu: 2022, Burlamaqui:2025a).

[23] In fact, the wave of Western protectionism, industrial policy announcements, and state-guided reindustrialization initiatives, marks not just a shift in tactics but a fundamental rethinking of institutional architectures—away from the orthodoxy of "market rules" and increasingly toward attempting to emulate the "China model" (Atkinson 2024a).

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