

WARM UP

**1 What are the three major types of economic system?**

## The rise of state capitalism

State capitalism is when a company is backed by the state while at the same time being free to behave like a private-sector company. Examples can be found in both major industries and major markets: the ten biggest oil-and-gas companies, measured by reserves, are all state-owned; 80% of the value of China's stock market and 62%

of Russia's come from state-backed companies. And it seems that state capitalism is on the rise in many emerging countries, China in particular, who see this as a sustainable model rather than progress towards liberal capitalism.

Supporters claim that state capitalism can provide stability as well as growth. However, growth of private companies is restricted as capital and talent flow towards the state giants, instead of towards private companies which have been shown to use capital more efficiently and to grow more quickly compared to the state companies. Furthermore, state-backed companies generally focus on one or two big areas, using their position and power to copy ideas and technology, and they will become less competitive when they have to start coming up with new ideas. Private companies and small start-ups are where innovation is.

Stability is not guaranteed either. This model can only work when the state directing the companies is a competent one. In addition, well-connected insiders and not innovative outsiders are often chosen to run these companies. Foreign investors in emerging markets need to pay attention to the risks as in some cases they are investing more in a government than in the company itself. Investing in a private-sector company in these countries can also bring risks as these companies have to fight to survive against the unfair advantages given to the state-backed companies. Government support and manipulation also create difficulties for the global trading system and make fair trade an impossibility.

It is easy to see the appeal of state capitalism for emerging countries but the dangers really outweigh any benefits, for both the country itself and for free trade. These countries should do as others have done before them: use the system to kick-start growth and then move forward, leaving the companies in the hands of the private sector.

Source: *The Economist*

ACTIVITIES

### READING COMPREHENSION

**2 Read the article and answer these questions.**

- 1 What is the definition of state capitalism?
- 2 Where is state capitalism increasing?
- 3 How does it limit the growth of private companies?
- 4 What advantage do private companies have over state-backed companies?
- 5 What risk do foreign investors in state-backed companies face?
- 6 What does the article suggest emerging countries should do?

### VOCABULARY

**3 Find the synonyms in the text for these words and expressions.**

- |                         |                        |
|-------------------------|------------------------|
| 1 simultaneously _____  | 4 concentrate on _____ |
| 2 as opposed to _____   | 5 attraction _____     |
| 3 those in favour _____ | 6 stimulate _____      |

### WRITING

**4 Write a short essay on state capitalism using these guidelines to help you.**

- What is state capitalism?
- Where is it common?
- What are the apparent advantages of this system?
- What are the drawbacks and for whom?