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The Chinese Economy and Chinese Economics

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Chinese people always enjoy talking about the miracle of China's economic growth, while foreigners look upon it with admiration. China no longer occupies a dispensable role, at least on the economic level. However, the embarrassing thing about it is that we still have not been able to get the world outside to fully understand everything that has happened in the Chinese mainland in the past thirty-plus years, and many of the stories about China are in fact being told by foreigners, in their languages, and through their models. In other words, the Chinese themselves still have not found the appropriate economic language to interpret Chinese experiences. This is actually a problem in the development of Chinese economics. Although the function of Chinese economics is not limited by the need to let foreigners understand China's story and understand the mysteries of China's growth as it guides China's economy to a healthy and sustainable future, at least in the initial stage, one of the most basic things it can do is to summarize the Chinese economic experience.

The development of economics in a country comes from summarizing its experiences. Once its economy is strong, then its economics is strong. Today the world is paying attention to and discussing China's development, creating Chinese models, Chinese routes, Chinese factors, and other concepts centering on Chinese experiences. The fundamental reason for it lies only in the fact that China's economy has risen to become the world's second largest, and in the not-too-distant future, without any suspense whatsoever, it will replace the United States as the world's largest economy. This is the main reason for the sudden popularity of "Chinese concepts", and it provides the most important opportunity for the development of Chinese economics.

Looking back in history, we find that China's past glories have also contributed to the development of classical economics. Since economics is an import, the contribution of Chinese experiences in the early development of economics is often overlooked, but in fact, François Quesnay, a representative of the Physiocratic school of thought and one of the founders of classical economics, was deeply influenced by China. Quesnay is known as the "Confucius of

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Europe,” and his final work, *Le Despotisme de la Chine*, marks the “culmination of the influence of the Chinese paradigm.” Although many experts believe that Chinese classical philosophy, which emphasizes natural order, has influenced classical economics, in a broader sense it is rather the experience of China’s development that has influenced classical economics.

Although many experts believe that Chinese classical philosophy, which emphasizes natural order, has influenced classical economics, in a broader sense, it is rather the experience of China’s development that has influenced classical economics. Statistically speaking, during Quesnay’s lifetime, the output of the Chinese empire exceeded the output of all of Western Europe, so it is quite logical that some Western scholars held the Chinese empire in high esteem. Even though Chinese experiences as relayed by missionaries had to be taken with a grain of salt (sometimes it was even a misreading), it was still reasonable to favor the Chinese system, culture, philosophy, and governance methods based on China’s great prosperity. This made Chinese experiences an important intellectual support for the formation of classical economic thought.

To be more specific, when Quesnay was examining Chinese ideas on natural law, he clearly pointed out that the Chinese took “the light of reason” as its guiding idea and praised the country for taking the study of natural law “to the highest degree of perfection,” for which it was “to be preferred over the other countries.” He also brought the ancient Chinese education system into the theory of natural order, saying that “except for China, no country has attached importance to the necessity of doing so as foundational to the work of ruling.” Therefore, “a consolidated, prosperous government should, following the example of the Chinese empire, take the natural law, which through research and enduring universal study forms the foundation of the social system, to be the chief goal of its own ruling work.” Since the viewpoint that national education is important for studying and for abiding by natural law was not at all reflected in traditional European thought, some Western scholars believe that the meaning of “education” in the Physiocrats’ thoughts on natural order was “obviously referring to the Chinese model.”

If China’s glorious past experiences provided nourishment for the development of classical economics, then China’s growth experiences today will be the best material for Chinese economics. However, it seems that Chinese economists themselves are not quite ready—to the point that they can only use terms from foreign scholars to tell China’s own stories. Typical examples are terms like “the flying geese paradigm” and “the Beijing Consensus.”

In fact, China's development experiences are much richer in meaning and more multi-dimensional than that. Since a comprehensive summary of them is far beyond the reach of this article, I am presenting here only a brief summary and a few recent reflections on China's experiences of economic development.

The first was the experience of adhering to the unity of reform, development, and stability. The course of China's development has been a progression in the unification of reform, development, and stability. Although doing things this way may sacrifice some efficiency (for example, changes are not too fast, and the speed of reform is restricted because of stability considerations), in the end long-term, sustained growth has been achieved. Only with social stability can reform and development continue to advance; only with the continuous advancement of reform and development can social stability have a solid foundation. Without social stability, not only would the smooth progress of reform and development become impossible, but also the results already achieved may be lost. This is why China will choose gradual reforms, allow the existence of a dual-track system, and tolerate the resulting arbitrage and efficiency losses. These problems are often criticized. In particular, the consolidation of several groups' interests are thought to have been brought about by one such incomplete reform. However, people will discover that China's ability to achieve long-term, stable growth is closely related to its implementation of effective reform by insisting on the unity of reform, development, and stability, as opposed to taking a "shock therapy" approach. The emphasis on this three-dimensional unity is completely at odds with the one-dimensional perspective of mainstream economics, which emphasizes efficiency.

The second was the experience of promoting local competition and stimulating local vitality. China's centralization and unification has a history of thousands of years, and the planned economy era continued this tradition. The "reform and opening up" that started in the 1980s was in fact a process of sharing and delegating authority. Besides the rights to expand business and expand markets, an important aspect of the reforms during this period was to grant development rights to localities. The central government not only allowed local competition aimed at development, but also encouraged it. It would almost seem as if this point in the context of China's development does not need to be explained—everyone is familiar with it by having lived through it, and it is something that often gives us headaches today. But if placed in a global context, especially in comparison with mature market economies, we will discover that promoting local competition is a very unique and effective development path. Although we can say today that in China such local competition has produced a series of undesirable consequences, such as vicious competition, local protectionism, market segmentation,

overcapacity, and so on, this is probably not a fault in the design of the local competition mechanism itself, but rather a fault in the assessment indicators. If we had increased the weight of indicators such as resource consumption, environmental damage, ecological benefits, overcapacity, technological innovation, safe production, and added debt, and gave more attention to labor and employment, people's incomes, social security, and people's health (cf. "Decision of the Central Committee of the CPC on Some Major Issues Concerning Comprehensively Deepening the Reform," November 2013), the results may have been completely different. Even though dealing with too many performance indicators is a problem worth discussing, maintaining this local competition mechanism will still be an important driving force for China's future development.

The third was the experience of implementing the "three-in-one" macroeconomic control. In the mainstream economic perspective, macro-control policies are generally fiscal policy and monetary policy. However, in China the emphasis is on using "national development strategy and planning as a guide, using fiscal policy and monetary policy as the main means, and strengthening the coordination of fiscal and monetary policies with industry, pricing, and other policy means." This three-in-one mode of regulation, which is headed by the National Development and Reform Commission, the Ministry of Finance, and the People's Bank of China, has a strongly Chinese coloration. Now even some of the advanced economies have begun to emphasize strategic planning and industrial policies, instead of taking the mainstream economics view of these government practices as a kind of market distortion. They may even be said to coincide with Chinese practices.

The fourth has been the experience of striving to find a balance between the government and the market. Determining how best to handle the relationship between the government and the market is an eternal subject in economics. Mainstream economists think they have solved this problem—that the market decides everything, and the government is just a night watchman. This comes from the basic logic of neoclassical economics: the market not only can do everything, but also can do everything well. But the 2008 crisis dumped ice water on this view. In 2013, Joseph Stiglitz reflected that interventions can never be perfect, but they do not need to be perfect in order to improve economic performance. It is not a choice between an imperfect government and a perfect market, but rather a trade-off between an imperfect government and an imperfect market. One of them must serve as a means of controlling the other; it is necessary to treat them as complementary, and we need to find a balance between the two. This balance is not maintained by assigning certain tasks to one side and other tasks to the other, but rather by designing a system that enables the two to interact with each other within that system. If we

look back on China's development process, although there have always been complications in the handling of the relationship between the government and the market, market-oriented reforms are still steadily advancing, and the market is playing an increasingly important role in the allocation of resources. For example, the CPC's change of terminology in describing the role of the market, from "basic" to "decisive," in November 2013, represented a new leap forward. However, it must not be forgotten that even so, the government is not at all disappearing or becoming a figurehead, but wants to function "better." This not only embodies a pragmatic attitude, but also can be said to grasp the essence of the relationship between the government and the market. Of course, to truly clarify the relationship between the government and the market, China still has a long way to go.

As for a summary of China's experiences, everyone has a different opinion. However, Chinese economics should at least follow the following three principles when summing up China's development experiences.

First, the experiences of the past 30 years cannot be separated from the experiences of the past 5,000 years. Although we breathe the air of a new society and a new era, many of our ways of thinking, our values, and behavior patterns have been imprinted by the 5,000 years of our civilization. This also determines that "Chinese characteristics" are characteristics of the *longue durée* (borrowing Fernand Braudel's concept), formed over millennia. If one sticks to the characteristics of a brief period (one measured, for example, in years or decades), then one cannot grasp the essence.

Second, one needs to be confident when summing up China's experiences. It may be that the phrase, "...are different," is exactly where their value is. Supposing that past summaries of Chinese experiences lacked some "assertiveness," always fearing that they were not fully consistent with the mainstream, then today this "inconsistency" or "characteristic" is precisely where the value of the Chinese experiences lies. If we explain this from the idea of the "paradigm" in scientific development, we can say that only those fresh and unique experiences that cannot be explained by the original paradigm can serve as the real motive force and source of theoretical progress.

Third, China's experiences do not always represent China's advantages, especially when viewed from different times, places, and perspectives. For example, pragmatism, empiricism, holistic thinking, the doctrine of the mean, the ethical order, authoritarianism, etc., are all regarded as Chinese experiences (or values), but this does not mean that these should be inherited without change and promoted. I am sure that in many areas we are required to reflect upon them, correct them, and creatively transform them. (Translated by Thomas E. Smith)