China-CEE Institute
中国—中东欧研究院

August 2026
ISSN: 2560-1628
2026 No. 6

WORKING PAPER

Two economic models interlocked in technology competition

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Kiadó: Kína-KKE Intézet Nonprofit Kft.

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1. State capitalism is fine, thanks!

Miscik, Orszag and Bunzel warn in Foreign Affairs ("Trouble with state capitalism") that direct state intervention leads to favoritism, lower growth, and weaker competition. They draw analogies from U.S. price controls in the 1970s and the nationalization of the British Leyland Motor Corporation, using these historical examples to warn about a new style of U.S. economic policy emerging under the second Trump administration. While the warning may be valid in the case of the United States, economic policies based on systematic long-term state intervention, particularly in its East Asian form—the Asian developmental state model—have produced success stories. Japan, South Korea, Singapore, and Chinese Taiwan are economies where long-term state intervention helped to bring about economic breakthroughs and achieve industrial and technological upgrading. China is a latecomer in this series of developmental states, but it has become the most successful one.[1]

[1] While the mainstream argues that China can be viewed as an Asian developmental state, Karpov maintains that the maintenance of the multiple price track system is the proof that Chinese economy cannot be viewed as market economy, but an economy in "infinite transition", which is never supposed to achieve the final point of a market economy (Karpov, 2020). Unlike the economy in infinite transition, Asian developmental states have become true market economies, therefore, Karpov points out, China cannot be interpreted as an Asian developmental state. We believe that China's characteristics as a developmental state do not contradict the argument that China has not yet completed its transition to a market economy and, most likely, never will. While the mainstream argues that China can be viewed as an Asian developmental state, Karpov maintains that the maintenance of the multiple price track system is the proof that Chinese economy cannot be viewed as market economy, but an economy in "infinite transition", which is never supposed to achieve the final point of a market economy (Karpov, 2020). Unlike the economy in infinite transition, Asian developmental states have become true market economies, therefore, Karpov points out, China cannot be interpreted as an Asian developmental state. We believe that China's characteristics as a developmental state do not contradict the argument that China has not yet completed its transition to a market economy and, most likely, never will. While the mainstream argues that China can be viewed as an Asian developmental state, Karpov maintains that the maintenance of the multiple price track system is the proof that Chinese economy cannot be viewed as market economy, but an economy in "infinite transition", which is never supposed to achieve the final point of a market economy (Karpov, 2020). Unlike the economy in infinite transition, Asian developmental states have become true market economies, therefore, Karpov points out, China cannot be interpreted as an Asian

The irony of the situation is hard to miss. After the collapse of the Soviet Union, Francis Fukuyama heralded a new age in which there would be no alternatives to liberal capitalism and democracy, and now the new American economic model is moving closer to the forms of state capitalism associated with China (Fukuyama, 1989). For America, there can be only one reason to "copy" China's model: its economic success and the significant technological progress China has demonstrated over the course of the last four decades.

In this paper, we look at the development of the American and Chinese economic models and focus on aspects related to technology competition. Technology has long been undervalued as a factor in international relations, but the history of the last five centuries vividly illustrates that it has played a decisive role in shaping global politics and the main patterns of the world economy; therefore, we concentrate on institutions and policies in the American and Chinese economic models that foster technological development and are crucial in the technology rivalry between the two superpowers.

We believe that technological competition is not an accidental or temporary phenomenon, but a long-lasting structural feature of the international system. We argue in this article that technology competition is not about one or several distinctive innovational breakthroughs in a certain field, but about competition between different economic systems. To understand the depth of this development, we first look at the historical development of both economic models briefly and then focus on the recent changes in these economic models.

2. U.S. responses to China's rise

n recent years, the rapid technological development and the success of China have triggered a U.S. response of a geopolitical nature. The policy of engagement with China was based on the belief in the United States that the economic integration of China would lead to a convergence of political systems in the spirit of Fukuyama. Normalization of diplomatic ties took place based on this assumption through the late 1990s and early 2000s.

China's rapid economic rise and the growing imbalances set a new course for bilateral relations and culminated first in the Trump administration's National Security Strategy in 2017, which reframed China as a strategic competitor. At the same time, this strategic shift was not

developmental state. We believe that China's characteristics as a developmental state do not contradict the argument that China has not yet completed its transition to a market economy and, most likely, never will.

unprecedented. After decades of a policy of engagement with China, the first signs of change appeared in the 2010s, when Hillary Clinton's article "America's Pacific Century" was published in Foreign Affairs. The article signaled a definite shift in American foreign policy in 2011. She wrote: *"The future of politics will be decided in Asia, not Afghanistan or Iraq, and the United States will be right at the center of the action"* (Clinton, 2011). This is not only a clear departure from a Europe- and Middle East-focused foreign policy, but also a clear indication of where major political and economic shifts will take place, reshaping the structure of world politics and the world economy.

To slow down China's ascent, the United States started a trade war against China, imposing high, punitive tariffs on China's exports and imposing economic sanctions. While these measures might be politically appealing, there are strong limits to these coercive tools, especially when speaking of China, which was the only country in the world to stand up to Trump's tariff threats and successfully make countermoves. Not only did the size of the Chinese economy enable this strategy, but so did China's reduced dependence on the U.S. market and diversified trade links.

2.1. The slow and hidden transformation of the U.S. economic model

The United States has undergone several waves of transformation of its economic policy impacting its technological power. After WWII, a Keynesian approach to economic development and strong state leadership in research and development were utilized for several decades which were replaced then by a neoliberal attitude from the early 1980s onward, leading to declining public research and development expenditures. Recent crises-the Global Financial Crisis in 2008-2009, the global pandemic in 2020, and growing geopolitical tensions in the world-led to a partial strengthening of the state in the economy. At the moment, it remains a question of how deliberate this change in economic policy is and how much of this alteration can be traced to the American president's character. Now, the emerging American model reflects a growing willingness to intervene directly in markets, even as debates continue over legality, efficiency, and long-term consequences. If we look at the above delineated trends, we believe it is not a foregone conclusion to say that the technological rivalry between the two superpowers is not temporary, but a structural phenomenon.

The transformation of the U.S. economic model has been evolutionary rather than revolutionary. Contrary to mainstream analysis, elements of state intervention were already visible under Obama and Biden. The shift in policies took place through two channels:

First, the Great Financial Crisis of 2008 and 2009 triggered these changes and led to a slow, probably not conscious departure from the course of neoliberalism that has dominated economy policy thinking of Washington for decades. In the aftermath of the Great Financial Crisis, the Obama administration launched large scale fiscal stimulus and bailed out major financial institutions (investment banks, insurance companies). The extensive use of quantitative easing under the Obama administration is a clear departure from the neoliberal policy toolkit! The Biden administration also relied on state subsidies (Inflation Reduction Act and the CHIPS and Science Act) and placed greater emphasis on immigration policy and industrial reshoring than other democrat presidents.

Secondly, China's development model has become increasingly attractive. Unlike Washington, Beijing has never argued for the so-called Beijing model as a universal blueprint for other countries, but its performance was remarkable and increasingly difficult to ignore. In the case of the United States, attractiveness did not suffice to change the course, only when Chinese companies began making inroads into sectors and technology intensive products and services previously "reserved" for American companies.

Although Trump's policies appear revolutionary, the return of the American state began earlier. New solutions and policies that put the state into focus again, were increasingly used during the Obama and Biden administrations as well. Lei summarizes these changes as follows: *"After the outbreak of the 2008 international financial crisis, for example, the Obama administration launched large-scale financial rescue and fiscal stimulus. In his first term, Trump extensively implemented state interventionist policies such as trade protectionism, immigration restrictions and industrial reshoring. The Biden administration implemented the Inflation Reduction Act and the CHIPS and Science Act, focusing on revitalizing the clean energy industry and semiconductor manufacturing through government subsidies."* (Lei, 2025, November 21). At the same time, there is a principal difference in the tools through which the Obama and Biden administrations, on the one hand, and the Trump administration, on the other, intervened in the economy.

Biden and Obama used market conform tools. Even when they pursued industrial policy, they implemented their agenda through market-based instruments, such as tax credits,

competitive grants, subsidized loans, and widely accessible loan guarantees. In contrast, Trump has been guiding the decisions of individual companies to allocate their capital in order to foster national champions in key, strategically important industries. Targeted approach of large companies has been always used in China, but this is a new policy approach in the United States. Henagan and Sandler describe thus: *"By contrast, what distinguishes the Trump administration's approach, and what could signal the emergence of a distinct American form of state capitalism, is the normalization of firm-level intervention outside periods of economic crisis. Rather than rescuing failing companies (as in crisis-era bailouts), shaping sector-wide incentives (as in Obama- and Biden-era industrial policy), or operating through state-owned enterprises, the government is now directing individual firms' capital allocation decisions to cultivate national champions in strategic industries."* (Henagan & Sandler, 2025, October 28).

If we compare the policy tools of the Biden and Trump administration, we can see very different accents in the implementation even if the objectives are the same. We see as a significant in the political climate that the debate is no longer whether the state should intervene but how it should intervene.

Table 1. A comparison of policy tools under the Biden and the second Trump administration

Biden-administration (2020-2024)				Trump administration (2025-2026)			
Trade	Investment	Policy	Technology	Trade	Investment	Policy	Technology
Multilateral coordination with allies and potential trade partners	Subsidies, "Friend-shoring"	Industrial policy through legislation	Green transition in focus	Tariffs as central tools in the bargaining process, bilateral bargaining	Home-shoring in focus	Industrial policy through direct pressures	Energy dominance
Source: own compilation							

It is true that there is a principal difference between Trump and his predecessors in the use of these measures and intervention in the economy. Before Trump, presidents relied on policy tools that were considered "legitimate" in a liberal market economy. Even when they pursued classic industrial policy goals and intervened to a great extent in the economy, they achieved their goals through market-based instruments, such as tax credits, competitive grants, subsidized loans, and widely accessible loan guarantees. In contrast, Trump has been guiding

the decisions of individual companies to allocate their capital in order to foster national champions in key, strategically important industries.

2.2. Trump's developmental state?

Conclusions cannot be drawn about Trump's economic policy yet, but ample evidence supports the concept of the revival of state interventionism. Such tools were once unthinkable in the United States. The brief list of these tools includes export controls and tariffs to extract payments and shape the investment decisions of e.g., Apple and Nvidia, acquiring a 10 percent equity stake in Intel, obtaining a golden share in U.S. Steel as a condition of Nippon Steel's acquisition, demanding 15 percent of chip revenues from NVIDIA and AMD as a condition for selling chips in China, and the Trump administration's plans to guide European and Japanese investments arriving as part of the trade deals with these countries.

As we can see, the list is relatively long, and the methods used to extract revenues from large corporations and to guide the decisions of major business players are imaginative. While these steps partly reflect the charisma and leadership style of the American president, new measures to intervene in the economy are not only the products of the president's imagination. Lei describes the emerging consensus about the end of neoliberalism as follows: *"Notably, Americans have been debating and reflecting on their political and economic system for quite some time. Despite serious differences between the two parties' elites about which industries to prioritize (clean energy or fossil fuels, for example), or policy choices on immigration and social security, they do agree and endorse the government directly investing in key industries for competitive advantage over foreign countries. Burying the liberal international economic order has become a consensus"* (Lei, 2025, November 21).

Lei later discusses how the American model is moving closer to the developmental state model of the Asian countries. While we agree with the core idea—that the state will more often intervene in the American economy—the notion is not appropriate here, since, as discussed previously, the Asian developmental state concept is multilayered and has other elements as well.

Henagan and Sandler underline the threats stemming from the lack of legal boundaries. They believe that the firm-level interventions of the Trump administration have changed the basic fabric of American capitalism. They write*: "The U.S. government operates as a series of*

balkanized fiefdoms, where agencies observe and imitate each other's experiments and creative interpretations of the law to increase their reach. ... Without legal boundaries, this new model of ad hoc policymaking will replicate across the government with poor results" (Henagan & Sandler, 2025, October 28).

There are other critics of the new Trumpian approach. Mazzuccato writes as follows: *"The Trump administration, too, has embraced industrial policy, but is pursuing it in all the wrong ways. Instead of organizing policy around missions—explicit public goals that define the problem to be solved and the outcomes to be delivered—and then aligning the state's tools to get there, it has treated industrial policy as a set of sector deals to be cut and announced"* (Mazzucato, 2026, January 28).

While new methods of state intervention appear to go beyond the framework of the rule of law, Trump focuses on speed and efficiency in his handling of these issues, and this might seem to be the only way to compete with China, which is also able to do the same in technology development projects.

While the American economic model underwent several deep changes to facilitate technological development, the change in the Chinese economic model was more profound, transforming a country from a poor, labor-intensive economy to a technology-intensive modern economy.

3. Changes in China's economic model

3.1. Stages of economic development

The modern Chinese economy was created after 1949, although the first pockets of modernization emerged in the late 19th century. The period after WWII can be divided into two stages. Each of them used a different approach to technology:

In the first period (1949-1978) the Chinese economy was characterized central planning, collectivization, and rapid industrialization. During this time, new technology came most from the Soviet Union, while in the next period new technology was first imported from advanced countries (the U.S., Japan and Germany etc.). Industrialization between 1949 and 1978 was marked with an absolute focus on the volume of investment, drawing on "big push theories"

popular in the developing world of the 1950s and 1960s. In this economic policy, the development of heavy industry and rapid capital accumulation were heavily emphasized .

After Chinese reforms started in 1978, technology became increasingly important for decision makers. China first specialized in low-tech, labor-intensive products. China benefited from relatively educated and cheap labor, the positive effects of a managed exchange rate, and a huge domestic market. With clever policies, and experimental project, China emerged as a manufacturing hub of the world, and its WTO membership helped the country to enter the world markets as well (Naughton, 2007). [2]

The Chinese economy found its balance first under Deng Xiaoping, and since then this model has been successfully rebalanced several times. The economic model that emerged became an export-focused, and investment-driven model with persistent trade surpluses and periodic investment inefficiencies. The Global Financial Crisis (2008-2009) vividly showed the dynamism of this model, but also that the export and investment driven model entered a new stage of economic development, in which Chinese leaders increasingly underlined the growing importance of technology for China.

This dynamism also contributed to altered American perceptions of China, ultimately replacing engagement with China with a containment policy, often expressed through concepts such as "de-coupling", "de-risking" and "re-shoring" etc. While the United States increasingly started using economic sanctions and implementing other steps to decrease reliance on Chinese products, these sanctions ironically accelerated China's efforts to achieve technological self-sufficiency. The call for technological self-reliance articulated by China in 2014 drew on deeply entrenched historical experiences, rather than constituting a genuinely new doctrinal shift.

3.2. New concepts

The shift from high economic growth marked by export orientation and manufacturing centered approach to a new era is described by several slogans, new terms in China. In the next

[2] We find it important to underline that China learned from its historical experiences and used these experiences in shaping its development strategy. In this strategy, two contradictory goals had to be balanced. One of these goals was to open China's economy since the country was in dire need of foreign capital and state-of-the-art technology. At the same time, China wanted to avoid overdependence on foreign countries.

part, we examine the new concepts of the Chinese economy, such as (1) dual circulation, (2) high-quality development, (3) new quality productive forces, (4) the new trio, (5) common prosperity briefly.

Dual circulation. The so-called "dual circulation" strategy has become one of the main priorities of the government's 14th Five-Year Plan (2021-2025). Under this concept, two circulations are distinguished: internal circulation, referring to the domestic economy (production, consumption, and distribution), and external circulation, referring to China's economic activities with the rest of the world. The new element is that internal circulation is meant to be the mainstay of economic activities, while external circulation plays a secondary role. There are many interpretations of this concept. The following two interpretations reinforce rather than contradict each other. (a) The main interpretation is that it is a strategy to rebalance the economy away from export- and fixed investment-based growth. This strategy appears to be a logical step in China's catching-up process, involving a shift toward higher value-added activities and GDP growth based increasingly on services. At this stage of development, the emphasis is on technological development and homegrown innovation. (b) The second interpretation, which does not contradict the first, is that this strategy is a response to the American sanctions imposed on China and aims to achieve a high degree of technological self-sufficiency.

High-quality development. The phrase denotes the growing importance of quality in the Chinese economy. The concept has been propagated by Xi Jinping, Chinese president several times. In speeches, delivered between October 2017 and March 2025, he underlined that the high-speed growth stage has come to an end and must be replaced by a high-quality development stage. He argued that growth relying on technology development is vital to maintain sustained and healthy economic development. He also emphasized that more technology is needed to adapt to the China's social changes. He often pointed out to experiences of other countries and said that *"Since the 1960s, only a dozen of the more than 100 middle-income economies worldwide have successfully entered the ranks of high-income economies. Those countries that have succeeded have achieved a shift from quantitative expansion to qualitative improvement in their economic development after experiencing a period of high-speed growth. "* (Xi Jinping, 2024, June 15). High quality development has also become the theme of the 14th Five-Year Plan (2019-2024) He also spoke of external factors often that make the path of development necessary with a strong emphasis on high-level technological self-reliance. He says: *"Accelerating the realization of high-level technological self-reliance*

and self-strengthening is the only way to promote high-quality development. In the face of fierce international competition, we must open up new fields and tracks for development and shape new driving forces and advantages for development. Fundamentally speaking, we must rely on technological innovation. Whether we can comprehensively build a strong socialist modern country as scheduled depends on technological self-reliance and self-strengthening." (Xi Jinping, 2024, June 15). As we can see, the Chinese leadership has formulated this policy in a response to the middle-income country dilemma.

New Quality Productive Forces. New Quality Productive Forces is another buzzword in Chinese economic development. It is also a concept put forward by Xi Jinping. This is basically the means to achieve the above-mentioned high-quality development. The hallmark of this new quality development is an increase in total factor productivity.

The new trio. The phrase underlines that China's recent technological successes were centered around three fields of production: electrical car, EV-batteries and photovoltaic products. Innovations in these fields helped the country to upgrade capacities and dominate global markets. The specialization in these sectors is not a coincidence since they helped greatly to provide scalable and efficient solutions for China's green transition. But the achievement of environmental protection goals is only one side of the coin, the other side is about setting geopolitical goals by creating global dominance in significant economic sectors.

Common prosperity. The concept originated from the Chinese president and related to raising the incomes of low-income people and distribute wealth more even evenly across regions. The policy aims at private businesses, especially large tech companies and attempts to regulate them and avoid the accumulation of excessive wealth. The regulations are especially applied to "the private education sector for excessive profits; the video game industry for gaming addiction among children; the entertainment industry for 'improper' content; tech companies for exploitation of platform workers; and tech companies for exploitative use of algorithms." (Koty, 2022 March 21). While it is often emphasized from Chinese side, it is not a new egalitarian policy, it is often interpreted this way in the West.

Debates in the West over China’s capabilities to innovate are about the presumed link between political institutions and long-term economic success. While we can find those experts who reject the efficiency of a top-down approach by referring to misallocation of resources, these arguments become less convincing in light of China’s achievements in high-technology segments of the economy (EV cars, EV batteries, photovoltaic panels, etc.).

The question of who wins the technological competition, China or the United States, may never be answered, but instead of a binary choice, a more nuanced approach is required. While China seems to excel in process optimization, incremental improvement, and rapid scaling, the U.S. is better at new innovations. A strategic reorientation is reflected in policy concepts such as "dual circulation," "high-quality development," "new quality forces," and "new trio." But as said before, technological competition is not about several breakthroughs in technology that are limited in number, but about the flexibility of the economic models allowing for massive "production" of new technologies and the flexibility of the business environment to utilize and take advantage of these innovations on a large scale. China appears to excel in those two flexibilities, while American firms have historically been better at the output and implementation of groundbreaking new technologies.

The above new concepts confirm China's shift toward a technology-focused growth model, which can be best understood through the "Asian developmental state model." We believe that China can be perceived as a variant of this model with a strong export orientation, strategic planning, and a farsighted bureaucracy, though it differs in scale and timing from other economies in this group. In addition, the vast market of China and the relatively closed economy allow for experimentation on a scale unprecedented in other countries.

At the same time, Karpov's approach, which rejects the "developmental state" label, also deserves attention, and it is worth considering the consequences of the new model, in which China is featured as an economy in "infinite transition," never achieving the state of a standard market economy. (He builds this theory on the assumption that China still uses a multiple-price-track system.)

4. Summary

We showed in this paper that technological competition is a deep structural rivalry between the United States and China, and at the center of the competition, we see two different economic models that currently seem to converge with each other. The convergence of the two models will never end up in a unified model; we are very far from that, but we have to understand that in both models, political powers aim at the construction of efficient, flexible, and resilient economic models capable of innovating and implementing new technologies on a large scale. For this reason, the United States' economic model appears to be undergoing a major overhaul, while Chinese policymakers seem to believe in incremental changes. At the

same time, the efficiency of the state is the central question, and therefore the state assumes an increasingly important role in technological and industrial development in both models.

Changes in the American economic model did not start with Trump, but the return of state intervention began under Obama and continued under Biden through subsidies, tax incentives, grants, and loan guarantees. The second Trump administration assigned the state an important role in economic development as well, but the methods and tools of state intervention changed radically; Trump expanded this approach through tariffs, export controls, direct pressure on individual companies, and government ownership stakes. This is also the reason why American China policy was not questioned by Biden or Trump; the legacy of the predecessor—in this case, a China-hostile foreign policy—was preserved, and the fight against China continued with different tools. For this reason, the main American debate is no longer whether the state should intervene, but how it should intervene and within what legal boundaries.

The other player in this competition, China, has transformed itself from a poor, labor-intensive economy into a major technological and industrial power. Between 1978 and 2010, GDP growth was built upon labor-intensive manufacturing and the export of these products; the export-oriented growth model remained. At the same time, technology-intensive production with high-value-added products has become the main feature of the new Chinese economy.

There is a rare trait of the Chinese economy that cannot be found in the West. While the rise of Chinese companies in advanced industries now takes competition in some of the sectors that have remained central to the West's industrial strength, China—unlike other advanced countries at a similar stage of development—has not vacated the older labor-intensive sectors. China is doing something that economic theory suggests no country should be able to do: retaining competitive advantages across almost every sector.

This dual economy needs new concepts and slogans that explain China's plans. In this paper, we discussed concepts such as dual circulation, high-quality development, new quality productive forces, the "new trio," and common prosperity. These concepts reflect China's shift toward innovation, technological self-reliance, and economic rebalancing.

We believe the United States remains particularly strong in groundbreaking innovation, while China excels in process optimization, incremental improvement, commercialization, and rapid industrial scaling. The outcome of the rivalry will depend on the adaptability of the two

economic models and their ability to generate, commercialize, and apply new technologies on a large scale.

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