

A Theory of China's 'Miracle'

Eight Principles of Contemporary Chinese Political Economy

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China's rapid economic development in recent years is often characterized as "miraculous."¹ Talk of a "Beijing Consensus" or "China model" has become commonplace in academic debates. But as we have written elsewhere, "theoretical problems have started to emerge with regards to the very existence, content, and prospects of the China model."² The key question, then, is what kind of economic theory and strategy underpin this "miracle." China's model has been variously described as a form of neoliberalism, or as a novel kind of Keynesianism. Against these positions, we hold that the country's major recent developmental gains are the achievements of theoretical advances in political economy, originating in China itself, while the main problems that have accompanied China's development reflect the damaging influence of Western neoliberalism. President Xi Jinping has emphasized the need to uphold and develop a Marxian political economy for the twenty-first century, adapted to China's needs and resources. The bulletin of a conference on China's economy of the Communist Party central committee, held in December 2015, accordingly stressed the importance of eight major principles of "socialist political economy with Chinese characteristics." These principles and their applications are discussed below, along with some comments on their varying interpretations among Chinese intellectuals. We hope to clarify the official theoretical model behind China's economic "miracle," using the terms and concepts prevalent in China today.

1. Sustainability Led by Science and Technology

A foundational premise of Marxian political economy is that the forces of production ultimately determine relations of production, with the two forming a constant dialectic that shapes the superstructure of ideology and legal and

political institutions. At the same time, the relations of production that prevail in one stage of development eventually become fetters on the further development of other productive modes. Within this process the forces of production are the most revolutionary and active, while human beings, who constantly develop more advanced technologies and organizational methods, are the driving force of production. Today the development of productivity involves three essential substantive elements: labor power, tools and machinery of labor, and materials; as well as three interactive elements: science and technology, management, and education. Of these, science and technology tend to drive the decisive changes that lead the development of the forces of production.

The principle of sustainability, led by science and technology, is critical in the study of China's economic policy. This principle emphasizes that liberating and developing the forces of production is the overriding mission of socialism at its earliest stages. As an economic model, socialism requires a certain level of material and technological development at its base. This principle stresses that population growth, resource exploitation and allocation, and the environment should mutually support and sustain one another. In practice, according to China's official framework, this means building a "three-type society": a "quality-enhanced society," achieved by controlling and reducing populations; an "efficiency-enhanced society," through conserving resources; and an "environmentally protected and promoted society." All of these require continual innovation as their motive force.

An emphasis on sustainable innovation is especially vital today. The "bottleneck" problem restricting Chinese economic and social development is the deficiency within this area of motive forces for innovation and the lack of new forces. From 1998 to 2003, China's high-technology production not only depended heavily on imported materials, but was also largely managed by foreign firms and investors. For example, in 2003, Chinese firms dependent on foreign investment accounted for approximately 90 percent of the country's exports of computers, components, and peripherals, and 75 percent of its exports of electronics and telecommunications equipment.³ Since then, the Chinese government has given more attention to the policy of innovation.

Only if intellectual property rights are protected at all levels can Chinese enterprises and the economy as a whole exploit the commercial advantages of brand names and technical advances in certain fields, as well as meet international technical standards for export.⁴ Currently in the "new normal"

economic climate, only if we grasp innovation, the first motive force for development, can we offset various risks, solve the difficulty of excess capacity, achieve structural transformation and upgrade of the economy, and keep up with the pace of global scientific and technological developments. Only if we make innovation the primary task of promoting development and use it to transform existing forces, nurture new forces, revitalize old ones, and create conditions for new ones constantly to emerge, can we instill powerful motives into the sustainable development of the economy and society. We should abandon such old ideas prevalent in Chinese economic discourse like “producing isn’t as good as purchasing which isn’t as good as renting,” “using the market to acquire technologies,” and so on, and address the issue of original innovation, integrated innovation, and re-innovation, and introducing and absorbing innovation into the economy. A triple system ought to be established combining the government, market, and technology together, in order to transfer economic “spontaneity” into “atomization.” During this process, the “determining effect” of science and technology needs to be fully understood, and we should, at a strategic level, recognize the importance of science and technology guiding the distribution of resources.⁵

2. Orienting Production to Improve the Livelihood of the People

One of the principles in political economy is the theory of the objective of production. In capitalism, the direct and ultimate production objective is to accumulate private surplus values or private profits as much as possible, and the production of use value is aimed to serve the production of private surplus value or private profits. In this regard, there is a basic difference between capitalism and socialism. Under capitalism, driven by profit for the few, accumulation occurs on a world scale, while the great majority of the world’s masses are plunged into poverty.⁶ In contrast to this model, the direct and ultimate objective of production in socialism is to meet the whole people’s material and cultural needs. The production of new value and public surplus value is aimed to serve the production of use value that reflects a “people-dominant” and people’s livelihood-oriented objective of production.

The political economy of a distinctly Chinese socialism should follow the principle of organizing production to raise living standards and meet the needs of the people. This principle emphasizes that the chief contradiction in socialism

at its earliest stage is that between the people's increasing material and cultural needs and backwardness of social production. This discrepancy can only be overcome through the speedy and steady development of productive capacities; this is the primary task of socialism in its initial phases. This development must be people-centered, with collective prosperity as its guiding goal. Our objective must be a society in which all people contribute to the satisfaction of human needs to the extent they are able, and enjoy access to the material, social, and spiritual resources they need for the full development of their human potential—in accord, of course, with the needs of ecological sustainability.⁷

The view that the “improvement of people's livelihood equals development” is an articulation of the objective of socialist production and economic development. We should keep on making economic development our central task and insist on the strategic idea of giving economic development overriding importance. We should pursue innovation as fundamental to this change thus promoting Chinese development and leading it to reach higher levels. However, the starting point and ending point of developing production and the economy is to improve people's livelihoods, and we should therefore set ourselves the goal of building a well-off society in an all-round way. Any plan for improving people's livelihoods should try to meet seven criteria: wealth and income distribution, poverty relief, employment, housing, education, medical care, and social security. In the “new normal” circumstances of slower growth and developing internal markets, these criteria must be met by coordinating economic development and social development.

Improving people's livelihoods is an endless task, and new challenges continuously emerge. We should adopt more targeted and direct measures, helping working people as a whole to solve their difficulties and promote their well-being through legal institutions and civil society. We should realistically assess the effects of our actions on living standards, ensuring that public services create a reliable “safety net.”

3. Public Ownership Precedence in National Property Rights

The basic tension between increasingly socialized production and capitalist private ownership gives rise to other contradictions and crises. These include the conflict between the management and planning of private enterprises and the

chaos of the market, the disparity between the indefinite expansion of production and the relative shortfall in real demand, and periodic bubbles, panics, and recessions.

The class antagonisms that result from these contradictions have historically inspired mass movements to replace private ownership of the means of production with public ownership.

Contemporary Chinese political economy adheres to the principle of property rights, with dominant public ownership. In the context of the relative underdevelopment of productivity in socialism at its earliest stages, economic development has required that a dominant public ownership develop alongside diversified private ownership: “Domestic and foreign private enterprises are developed under the precondition of the qualitative and quantitative priority of the public economy.”⁸ This principle stresses the need continually to strengthen and develop the public economy while also encouraging the development of private sectors of the economy, ensuring that all forms of ownership make up for each other’s deficiencies through mutual promotion and coordinated development. Nevertheless, the central role of public ownership must be safeguarded, so the state sector must be dominant in the economy. This is the institutional guarantee for all Chinese people—that they will share the fruits of development—as well as an important guarantee for enhancing the party’s leading position and maintaining the Chinese socialist system. The principle highlights a basic difference between the socialist economy and the modern capitalist economic system, in which private ownership is dominant. If we handle it properly, public ownership cannot only have an organic integration with the market economy, but also achieve greater fairness and efficiency than private ownership. Meanwhile, we should also see clearly that currently the globe is still divided into nation-states and that state ownership still remains an appropriate form of socialist ownership.

At present, we must be guided by the idea that the state sector acts as the foundation of the socialist economy, and that the aim of mixed-ownership reforms is not to undermine state-owned enterprise, but to strengthen it. We should learn from past errors of state-sector reform that allowed a narrow elite to amass huge fortunes through misdirection of funds. We need to focus on the development of two-way mixed ownership with public capital holdings. The collective and cooperative model of Chinese village economies needs further investment. New policies must be introduced to enhance the vitality,

competitiveness, and risk management of the public economy. The government should control and regulate private businesses both at home and abroad, and not just support them, in order to realize their benefits while minimizing their negative effects. China should encourage and lead private enterprises to implement reforms enabling workers to accumulate shareholdings, so as to benefit both labor and capital and achieve collective prosperity.

4. The Primacy of Labor in the Distribution of Wealth

In any capitalist economy, wage laborers are paid only for the expenditure of their labor power, and not for the value of the commodities they produce. Under these conditions, the specific wage a worker earns is associated with his or her position and performance. And while in some sectors of capitalist economies, collective labor organization can limit the rate of exploitation and give the appearance of a fair distribution of wealth, the overriding power remains the private property rights of owners and employers.

The distribution of wealth in a Chinese socialist economy must be guided by the needs of labor, not capital. We must strive against exploitation and polarization. The income gap should be bridged, and increased income for all citizens should coincide with economic growth and labor productivity. It is vital to establish a sound and scientific mechanism for determining wage levels, as well as a mechanism for regular increases in wages.

We should put into practice the idea that only by building effective institutions to ensure that the benefits of China's growth are equitably distributed can people be given a sense of common purpose in the project of economic development. We need to strengthen the momentum of development and promote people's unity, advancing gradually and steadily towards collective prosperity. Only if resource allocation focuses on collective prosperity can social production be carried out healthily and steadily and the superiority of socialist system be realized.

The adherence to shared development mainly involves the problems of people's livelihoods and collective prosperity, of which the distribution problem is the most outstanding. Indeed, maldistribution of wealth is the greatest obstacle to collective prosperity today. We have witnessed a major decline of labor's share of GDP from about 53 percent in 1990 to 42 percent in 2007. The growing

“reserve army of labor,” the segregation of the labor market, and massive privatizations of state-owned enterprises have significantly depressed the power and weakened the solidarity of the working class.⁹ In China today, inequalities in property ownership and income are large and growing, with a national Gini coefficient exceeding that of the United States. The richest 1 percent of Chinese families control one-third of all Chinese household assets, the same figure as in the United States. We should note that the primary index of polarization between the rich and the poor is not income from wages or salaries, but wealth, that is, the net assets of families.¹⁰

Over the last decade, official documents have emphasized the importance of “bridging income gaps,” but this has proven controversial. Some articles even generally praise the rich as engines of economic growth and social role models, who thus deserve a disproportionate share of the country’s wealth. This popular but destructive idea holds that the present gap between rich and poor is a trivial issue unrelated to the large-scale development of non-public economies, and that the real concern is now the so-called “middle-income trap.”

But in fact, it was neoliberalism that invented the concept of the “middle-income trap,” and dragged Latin American countries into it. It also helped plunge high-income economies, such as the United States, Japan, and the European Union, into financial crisis, and left low-income countries such as those in sub-Saharan Africa mired in long-term slow development. Economist Mylene Gaulard writes that

Chinese economic growth has slowed down since 2002. Many researches on “middle-income trap” are keeping a watchful eye on whether China will be able to join in the group of high-income nations with its per capita GDP. Most researches attribute this to the increase of wage cost, to be exact, the increase of unit labor cost, which results in the loss of the international competitiveness. However, due to the fact that the increase of unit labor cost doesn’t seem as risky as the decrease of efficiency of capital, we should consult Marxist analysis to better understand this problem.¹¹

China must heed Deng Xiaoping’s instructions, given at the end of last century, to solve the problems of gaps between rich and poor and to achieve collective prosperity, developing a mechanism for wealth and income distribution based on the primacy of labor.¹²

5. The Market Principle Steered by the State

The anarchic character of the capitalist market, and the individual capitalist's drive to innovate in order to reduce labor costs, leads periodically to crises of overproduction, in which workers suffer most. Such crises can be short- or long-term, depending on the degree of "non-market" factors present, particularly the scale of monopoly. In a capitalist market economy, this proportional law relies mainly on such spontaneous adjustments, and the role of state regulation is relatively limited.

By contrast, in a Chinese socialist economy, the market is steered by the state, not the other way around. Marta Harnecker has argued that without participatory planning there can be no socialism, not only because of the need to end the anarchy of capitalist production, but also because only through mass engagement can society truly appropriate the fruits of its labor. The actors in participatory planning will vary according to different levels of social ownership.¹³ This "state-steered market" principle emphasizes that a socialist society can develop a market economy in a planned and proportionate way, and that the fundamental role of the market in resource allocation should be carried out under government supervision.

In giving the market a determining role in general allocation while promoting the regulatory role of the government, every effort must be made to address problems of imperfect market mechanisms, excessive government intervention, and poor regulatory supervision. To achieve this, we must advance market-oriented reforms that significantly reduce the government's direct allocation of resources and permit this allocation to occur according to market rules, with prices and competition, to achieve maximum efficiency. The duties and functions of the government are mainly to keep a steady macroeconomic policy, to strengthen public services, to guarantee fair competition and reinforce market supervision, and to promote collective prosperity and rectify or compensate for market failures.

We should continue striving to combine the basic system of socialism with a market economy. In this way, we can take full advantage of both aspects. It should be acknowledged that in China's economy, the laws of market self-regulation play a determining role within general resource allocation, but these nevertheless operate differently than in capitalist markets. In a capitalist economy, the operation of the market decides resource allocation. But in a socialist economy, the government uses price controls, subsidies, rationing, and other policies to ensure that resource allocation is planned and proportionate. We need, then, to see the determining role of the market better integrated into

government plans. We should take advantage of the market's benefits while rectifying inefficiencies in the regulatory mechanisms of both the state and the market itself, thus forming a two-pronged approach.¹⁴ Obviously, as the Chinese socialist market economy is based on the primacy of public ownership, the strength and reach of regulation in areas such as the law, fiscal policy, administration, and ethics exceed the regulating capacity of governments in capitalist market economies. The unparalleled performance of the Chinese economy in recent decades is compelling evidence of the greater ability of the government to steer development.

We should not deny the objectivity of state programming, planning, and regulation, and hold that such notions as "state regulation law," "planning law," and others do not apply, just because this involves possibly mistaken actions by human actors. For in accepting this logic one must also accept that there is also a human element in market activities, and so related notions such as "law of market regulation," "law of value," and so on equally do not apply. After all, the market is determined by human behavior. Human economic action in the market regulates enterprise, the nature of the commodity, price and competition. Therefore, both the laws of market regulation and state regulation are based upon human activities in form and content. Good and effective micro and macroeconomics requires that all workers in enterprises and the government try to make their individual contributions fit in with the objective economic activities in which human beings participate.

6. Speedy Development with High Performance

The optimal economic growth rate should seek to maximize economic performance. A relatively low growth rate with insufficient resource use inhibits full employment, wealth accumulation, and public welfare. Yet a higher growth rate with extensive rather than intensive resource utilization is equally detrimental to ecological sustainability and distributive justice. A dialectical analysis is required for any index based on gross domestic product (GDP). Assessed in isolation, any approach focused solely on GDP is inadequate: we must give attention not only to growth for its own sake, but also to what kind of growth are we driving, in what areas, and at what cost.

The Chinese economy should prioritize performance over speed. From the 1980s through the 1990s, economic growth was the top priority of the Chinese government, and GDP quadrupled over that period. By 2020, GDP and per capita GDP are projected to be double that of 2010. Since 2013, after thirty years of

nearly uninterrupted rapid growth, China has entered a new phase that we call the “new normal.” Growth has slowed, and China’s economy is transforming from an extensive, high-growth model into an intensive, high-performance model.¹⁵

To achieve stable economic growth, we should be concerned with supply-side structural reforms. The major reasons for the increasing downward pressure on the Chinese economy are the failure to reform the structures required for long periods of extensive growth, and their dependence on material input, resource consumption, and low levels of innovation. Changes in the economic situation both at home and abroad require an urgent upgrade of the Chinese economy from speedy development to high-quality development. The Chinese labor market should shift into a more diverse division of labor, with a more flexible structure.

7. Balanced Development with Structural Coordination

One of the principles of China’s political economy is the proportional distribution law of social labor (or “proportional law,” for short), which governs the contradictory movement between social production and demand and the need to coordinate development for the entire national economy. The law requires that the overall social labor of people, tools, and materials should be distributed proportionately according to demand, in order to maintain a structural balance among different industries and sectors. In social reproduction, output and demand maintain a dynamic balance in their structure of value maximizing production while minimizing labor consumption. The generalized structural coordination of the economy is reflected in the increasing rationalization and sophistication of industrial infrastructure, foreign trade, corporate management, technological innovation, and more.

This principle of coordinated structural balance is essential to contemporary Chinese political economy. This is part of its larger goal of promoting the evolution of Chinese industry from a low-and-middle level to a middle-and-high level. In the context of increasing modernization, balance should be maintained within and among primary, secondary, and tertiary sectors. The economic structures of provinces, cities, and regions should be diversified, and foreign trade should involve more new and high-technology products and domestic brands. Large Chinese enterprises and corporations should retain the largest

share of trade, with smaller enterprises and foreign firms coexisting. With regard to high-technology products, the percentage of Chinese self-owned core technologies and intellectual properties on the world market should be increased. In the market, supply and demand should maintain a dynamic balance, with supply slightly higher than demand. Development should serve the real economy, and the virtual economy ought not to be over-developed. Industrialization, informatization, urbanization, and agricultural modernization should coordinate with one another.

For the time being, we must adapt our theories, guidelines, and policies to the economic “new normal.” We must focus on strengthening supply-side structural reforms while also moderately enlarging gross demand and reforming major sectors of the economy, with special emphasis on reducing excess structural capacity. We should gradually scale down capacity and stock, deleverage businesses, and promote innovation to reduce costs and strengthen weak links. Improvements must also be made in the quality and efficiency of supply chains and the effectiveness of investment. Accelerating development of ecologically sound energy sources and building the momentum of sustainable growth is also important. We must abandon the persistent misconception that as long as we eliminate economic surplus caused by administrative intervention, excess production capacity and product surplus formed by marketization can be balanced automatically without any active government intervention. This neoliberal fallacy and its consequences are not only the major reason for large-scale structural excess capacity in the Chinese economy, but also go against the spirit of Chinese socialism.

8. Economic Sovereignty and Openness

A final principle is to open the economy to trade and investment. This principle holds that such opening is beneficial to economic growth both at home and abroad, aiding optimizations in the allocation of resources and improved interactions between industry and technology. The manner of this economic opening up of the economy, its range and extent, should be implemented in a way that is flexible and responsive to complex and changeable conditions in national and global economy. Developing countries should devote particular care to their strategies and tactics when opening up to developed countries, given the inherent risks and uncertainties inherent in such an unequal relationship.

A socialist political economy with Chinese characteristics must accordingly focus on the principle of economic sovereignty. China should insist on the state policy of two-way opening that integrates domestic and international politics, developing a higher-level open economy by taking advantage of domestic and foreign markets. It entails tailoring trade policy to find and exploit mutually beneficial deals, while protecting China's development and actively guarding against risks to national economic security. It requires a policy that gives equal importance to the foreign inputs and outputs of the economy, as well as "latecomer advantages" and "pioneer advantages." We should build international corporations governed by the "three controls": the Chinese side controls the shares, core technologies and technological standards, and brands. At the same time, it is important not to fall into traditional "comparative advantages traps" and carry out the theory and strategy of independent intellectual property rights advantages.

In the immediate future, we should focus on opening up different regions to foreign trade, utilizing their specific strengths and avoiding needless competition between regions for the same kinds of trade—especially when these obviously suit some regions better than others. China should make the best use of its imports and exports, neither importing products that could just as easily be domestically sourced, nor exporting products for which there is unsatisfied demand at home. It is also important to raise the level of international distribution, by making the most out of foreign expertise and technologies in developing international production capacity and manufacturing. Free trade zones and investment infrastructure need to be negotiated. Overall, China needs to play a stronger role in global economic governance.

A further challenge is that of effectively deploying Chinese foreign investment to secure optimum benefits. This equally applies to China's foreign exchange reserves. In this regard it is important to learn as soon as possible from the experience of developed economies such as Japan, South Korea, and the United States in their trade relations with foreign partners. The problem of "decapitating" mergers is to be avoided when growing companies and industries from abroad try to enter the Chinese market. China must commit to remain open to foreign trade in order to deepen and broaden the quality and growth of its own economic output. A key component of this strategy is China's "One Belt, One Road" initiative. This massive investment project must go hand in hand with developing a new global financial architecture, as embodied by such institutions as the Asian Infrastructure Investment Bank and the Silk Road Fund. These

institutions represent landmark achievements in the larger project of strengthening and sustaining China's economic success.

Notes

1. ↵ Research for this article was supported by Project 16NKS081 of the National Social Science Foundation of China, a bidding project of the School of Marxism and Leading Academic Discipline Program, and Project 211 for the Shanghai University of Finance and Economics. Ding Xiaoqin is the corresponding author for this article.
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8. ↵ Enfu Cheng and Xiangyang Xin, "Fundamental Elements of the China Model," *International Critical Thought* 1, no. 1 (2011): 2–10.
9. ↵ Hao Qi, "The Labor Share Question in China," *Monthly Review* 65, no. 8 (2014): 23–35.
10. ↵ According to the *Reference News* of October 17, 2015, the latest Hurun Wealth Report shows that in 2015 the number of billionaires in China (596) surpassed that of America (537). This figure does not include billionaires in Hong Kong, Macao, or Taiwan.
11. ↵ Mylene Gaulard, "A Marxist Approach of the Middle-Income Trap in China," *World Review of Political Economy* 6, no. 3 (2015): 298–319.

12. ↵Xinghua Wei, “The Persistence, Development, and Innovation of the Economic Theories on Socialism with Chinese Characteristics,” *Studies on Marxism*, 10 (2015): 5–16.
13. ↵Marta Harnecker, “Question 5: Social and Long-Term Planning?” *Science & Society* 76, no. 2 (2012): 243–66.
14. ↵Guoguang Liu and Enfu Cheng, “To Have a Comprehensive and Accurate Understanding of the Relationship between Market and Government,” *Studies on the Theories of Mao Zedong and Deng Xiaoping*, no. 2 (2014): 11–16.
15. ↵From 2002 to 2011, Chinese GDP increased at an annual rate of more than 9 percent. GDP grew by 7.7. percent in 2012 and 2013, and dropping to 7.4 percent in 2014 and 6.9 percent in 2015. In the first half of 2016, GDP grew at an annualized rate of 6.7 percent. Despite this slowdown, China remains the world’s fastest-growing major economy; the IMF estimates that China accounts for more than a quarter of global economic activity.