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A Critique of Marketism: Varieties of Exchanges in China's Past and Present

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Abstract

The theory and ideology of mainstream Anglo-American "marketism" do not accord with reality. Its core idea—equating all trade with equal and mutually beneficial market exchanges, and believing that such exchanges are certain to lead to division of labor and transformative changes in labor productivity—is a one-sided, idealized construction. It erases unequal exchanges under imperialism and ignores the realities of the use of cheap informal labor in developing countries by hegemonic capital in the globalized economy. It also disregards pervasive unethical pursuits of profit among producers and widespread human weaknesses among consumers. If we proceed instead from China's actual experiences, we can come to see and grasp the many different varieties of trade that differ from the abstractions of conventional marketism, including the "commercialization of extraction" that long characterized the principally unidirectional "trade" based on severe inequities between town and country, as well as the "growth without (labor productivity) development," or "involutionary commercialization," that long characterized domestic Chinese commerce that emerged under severe population pressures on the land. If we turn instead to the "take-off" period of the recent decades in Chinese economic development, we can see also the great contrast between Chinese realities and the mainstream economics construct of a "laissez faire state," and see instead the state

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engaging most actively in development, and state-owned enterprises working closely together with private enterprises. Those realities are perhaps most evident in the recent dramatic development of China's mammoth real estate economy that has been the main engine of rapid development since about 2000—most especially in its immense process of the "capitalization of land." We can also see how the tradition of the "socialist planned economy" has operated in unison with the new capitalist market economy, by combining the twin ideals and mechanisms of "people's livelihood" and "private profit." What is needed is a new kind of political economy that can grasp and illuminate such changes.

Keywords
unequal market exchange, extractive and involutionary commercialization, interactive and syncretic state-society relations, syncretizing of socialism and capitalism, a new political economy

The *Encyclopedia Britannica*, known for its authoritative yet easy-to-read articles, has two entries under "market economy," one titled simply "Market," by famous post-Keynesian economist Joan Robinson (Robinson, n.d.), and the other under the twin titles first of "Economic System" and then "Market" by Peter J. Boettke (Boettke, n.d.), associate professor at George Mason University.[1] A comparison of the two illustrates the basic views and principal divisions of opinion among economists over market economy. This article will use the two essays to help delimit selectively the scope of the huge topic of the market, as well as to serve as clarifying foils for our discussion of Chinese experiences in commerce and trade. The article follows their example in using plain language (rather than jargon) to explicate the theoretical implications of the Chinese experiences.

Varieties of Market Economies in Chinese History

Premodern "Petty Commodities" Trade

Just as Professor Robinson explains, there are multiple varieties and types of markets in history, past and present, that cannot be reduced to a single type. First is what Marx termed the "petty commodities" market, composed chiefly of the goods of individual producers exchanged in a marketplace. Several generations of outstanding research and theorizing on such markets by scholars ranging from A. V. Chayanov and Bronislaw Malinowski to Karl Polanyi and Eric Wolf, to Clifford Geertz and Fei Xiaotong, demonstrate how they are deeply embedded in social relations and are not comprehensible simply in terms of liberal or neoliberal economic theory. (For a useful recent overview, see Song Jingye, 2021.) In China, trading long existed in the periodic markets (marketplaces) of local communities, still a major institution even as late as the Ming-Qing and Republican periods, and still significant in China today. This is a kind of petty commodities trading that must be considered when we think about marketing in China, past or present, its persistence over the longue durée being a major difference between the Chinese economy (as well as that of other developing countries) and the modernized developed Western economies. But a mainstream economist such as Boettke simply dismisses such trading as something entirely of the "premodern" past, no longer relevant for understanding market economy.

Extractive Trade

Robinson also points out that, in addition to petty commodities trade, there was also commercialization based in the main on the rents-in-kind extracted by (land)lords from their peasant tenants and then sold. She does not give such trade a name or term, but this author has, on the basis of the historical record of the Yangzi delta area from the Ming-Qing down to the first half of the twentieth century, termed such trading "the commercialization of extraction," or "extraction-driven commercialization," to distinguish it from equal trading between two parties.[2]

What this categorization helps us see is a crucial side of trade and exchange in Chinese history: of a principally unidirectional flow of goods from villages to towns, with little flow in the reverse direction. In the Ming-Qing and modern-contemporary periods, the flow of goods consisted mainly, first of all, of exchanges among peasants of surplus cloth for surplus grain, even if intermediated by small traders and sometimes even long-distance transport. (The central position that cloth and grain occupied in Chinese marketing is also readily evident in the pervasive use of grain 粮票 and cloth coupons 布票 in China's collective economy period.) Rural-urban trade comprised mainly the flow of grain above all (especially the so-called fine grains 细粮 of rice and wheat flour) from the villages, also meat-poultry-fish, (high quality) cotton yarn and cloth, silk thread (peasants of that time mostly wore cotton clothing, almost never silk), and others. There was little flow of goods in the opposite direction, from town to country. On the basis of the detailed Mantetsu field investigations of the 1930s and early 1940s, we can see that, on the (relatively poor) North China plain, town goods accounted for only about 10 percent of peasants' purchased goods, and in the relatively more prosperous Yangzi

Delta, about 20 percent. They consisted principally of everyday goods such as soy sauce, sugar, salt, and cooking oil, and in the Yangzi delta, also such things as tobacco, tea, and liquor (Huang, 1990: see especially tables 6.2, 6.3, 6.4). That kind of exchange or trade is not equal and bidirectional, but rather, from the point of view of conventional thinking about trade, lop-sided or deformed, consisting chiefly of "exports" from villages to towns and cities. That kind of "disparity between town and country" 城乡差别 continued well after the triumph of the Chinese Revolution, and remains evident to a great extent even today, when China has already become the second largest economy in the world.

Those experiences do not accord with what Boettke reiterates as Adam Smith's model of commercial trade. First of all, the model Smith constructed in 1776 of rural-urban, interregional, and international trade as bidirectional and equal was predicated on the experiences in rural-urban trade in Britain during its twin agricultural revolution and early industrialization. At that time, as demonstrated by large numbers of probate records, villages purchased from towns such items as mirrors, oil paintings, books, clocks, tablecloths, sundry silver products, and so on (Weatherill, 1993: see esp. pp. 219–20, tables 10.2 and 10.4), in sharp contrast with the pattern in China. That kind of urban-rural trade could only represent a Britain during a time when it was the first nation to enter into genuinely bidirectional urban-rural trade, in fact a unique experience at the time. We must not blindly follow Boettke to imagine that that is and must be the universal pattern of all economies. It does not accord with the experiences of a later-developing peasant economy country such as China.

Involutionary Commercialization

Directly related to unequal rural-urban trade and exchange was the experience of "involutionary commercialization" that this author has long studied. Under the mounting population-to-land pressures of China, small peasants could only follow a path of greater and greater labor intensification, of diminishing marginal returns to labor for the sake of maximizing per-unit land returns (rather than per-unit labor returns). In the Yangzi Delta that took especially the path of changing from already highly labor-intensive rice production to cotton-yarn-cloth production, which required eighteen times more labor per mu than wet rice, for just three to four times the returns; or from rice to mulberry-silkworms-silk thread (silk weaving required complex and expensive equipment, generally found only in the towns) for nine times the labor and just three to four times the returns per unit land. According to the solid research done by past generations of China's outstanding economic historians using field investigations, interviews, and documentary materials, trade between peasants with surplus cloth (and silk thread) and peasants with surplus grain comprised the single largest portion of all commodities trade in China at the time—about four-fifths (Xu and Wu, 1985; Xu Xinwu, 1992).

The massively increased application of labor in small peasant households—eighteen times greater labor input per unit (mu) land for cotton-yarn-cloth and nine times for mulberry-silkworms-silk thread—meant that everyone in the household capable of working had to work, including the women, elderly, and children. Hence what this author has termed "the familization of agricultural production." That was the fundamental characteristic of "involutionary commercialization." It brought increased commercialization and marketization, but definitely not of the transformative bidirectional type of rural-urban trade that Adam Smith described, one which gave rise in turn to specialization and division of labor, and thence to the spiraling development in labor productivity characteristic of modernizing economies. Smith's classic example was the production of pins: without a division of labor, ten people could not produce in one day a single pin that required eighteen different operations but, with the help of division of labor, ten people could produce as many as 48,000 pins in a single day. Such specialization and division of labor gave rise to the spiraling development characteristic of modern manufacturing (Smith, 1976 [1776]). What happened in China's Yangzi Delta, as noted above, was instead mainly a unidirectional "export" of finer agricultural goods to the towns, with relatively little flow of goods in the reverse direction. The result was what this author has called "growth without development," or "involution" and "involutionary commercialization." "Without development" because labor productivity increase is the heart of modern economic development; involutionary commercialization, by contrast, was characterized by greatly increased labor input to drive commercialization, but with diminished returns per unit labor. It was the root of what in the Chinese Revolution was termed "the three great differences" ("between industry and agriculture, city and countryside, and mental and physical labor"), not of what Smith constructed to be equal and mutually beneficial trade that drove sustained modern industrialization.

Professor Robinson did not consider at all that degree of population pressure, perhaps because the average farm of that period in England was 150 acres (900 Chinese mu), not the 1.66 acre (10 mu) of the Yangzi Delta. To her, that sort of population pressure on the land was perhaps inconceivable. The neoclassical economist Boettke simply ignored all of the above varieties of market economy.

"Modern" Market Economies

The Smithian Classical-Liberal Market Economy

Market economy between nations seen from the perspective of China is very different both from the Smithian classical-liberal market economy model and also from more recent American experience since the mid-twentieth century. It is very different from Smith's idealized model of equal and mutually beneficial international and rural-urban trade: namely, in schematized terms, if area A can produce good A at half the cost (due to its comparative advantage in resource endowment) and area B can similarly produce good B at a lower cost, for the two areas to trade is undoubtedly beneficial for both. That applies of course also to multilateral trade.

Smith's *Wealth of Nations*, written in the historical context of late eighteenth-century Britain, presented a model of domestic and international trade that targeted, first of all, the mainstream mercantilism of the time—namely, the system whereby the state (the throne) organized special monopoly companies to gain as much gold and silver through trading as possible, the better to compete and wage war with other new nation-states. Smith's ideal of a non-interventionist laissez faire state, of free and equal trade among nations, was intended to justify greater power and "rights" for the newly arising commercial classes vis-à-vis the state and the aristocracy. It was anchored in a considerable measure of reality, but was also an idealized, one-sided construction of market economy (Smith, 1976 [1776]).

Smith's constructs and analyses were subsequently adopted by classical (and neoclassical) economics as universal economic laws and taken by mainstream economists such as Boettke to be the given truth. Western imperialist countries in particular, and most of all the two successive global superpowers, Britain and the United States, adopted the neoclassical model as mainstream economic science, in fact even as ruling ideologies that claim to be "objective" and "scientific." Their immense influence has extended down to the authoritative *Encyclopedia Britannica* today. Compared to Robinson's view of multiple varieties of market economies throughout history, what Boettke asserts is the singular and universal truth of market economy as *the* necessary precondition for modernity.

In his analysis, mainstream liberal and neoliberal theory demonstrates that market economy is the only system powered entirely by the free and independent decisions of all individual consumers, the only system by which equal and mutually beneficial relations obtain to ensure the optimal allocation of resources. In such a view, only that kind of free exchange can drive the social division of labor, giving rise thereby to economies of scale in manufacturing, and therefore dramatic increases in labor productivity. Boettke pronounces confidently that such a purely competitive market will lead to equilibrium between consumption demand and production supply as well as to market-set prices that ensure the optimal allocation of resources, and hence spiraling modern development.

To be sure, Boettke speaks also of economic crises such as the Great Depression, which led to the rise of Keynesian principles for state intervention in the workings of the economy, but even so, he goes on to declare that subsequently classical-liberal economics returned as "neoliberalism" to become once more the dominant current of economic theorizing. In his view, Smith's capitalist and marketist principles are obvious universal truths, even the ultimate meaning of "modernization." The unspoken belief is that it represents what some would even call "the end of history."

Unequal Market Trade under Imperialism

In the history of the real world, the nineteenth century that followed Smith was the heyday of extractive trade powered by imperialism. What emerged widely were unequal international trade relationships powered by invasions and wars, including occupation and forced extractions, and illegal goods—such as the opium raised in India under the auspices of the East India Company, then smuggled into China, in exchange for the tea, silk, and porcelain of China. That kind of trade was obviously very different from the kind of equal and mutually beneficial trading envisioned by Smith. But mainstream classical and neoclassical economics still insist on the marketism model constructed by Smith. Even Robinson, not to speak of Boettke, does not point this out clearly. It was Marx who in 1858 wrote a series of articles for the *New York Tribune* to expose the real nature of the opium trade and the Opium War (Marx, 1858).

Even so, Smith's one-sided and idealized construction continued to be accepted by mainstream economics as the gospel truth and continued to wield decisive influence in the world of economics. An example that is particularly relevant for understanding the tradition of American research on China is that two outstanding Chinese-origin scholars, under John Fairbank's tutelage at Harvard, produced detailed research monographs in which one characterized the origins of the Opium War as attributable not to the smuggling of opium but rather to the "clash of civilizations" between China and Britain (Chang, 1964), and the other argued that China's establishing of the new Zongli yamen 总理衙门 to oversee foreign relations represented "China's Entrance into the Family of Nations" (Hsu, 1960). Both were in effect using the doctrines of liberal marketism to justify imperialist aggression. When this author undertook graduate study of China in the 1960s, those were both required readings.

Unequal Market Trade under the Hegemony of U.S. Financial Capital

Later came the globalization of the world economy during the latter part of the twentieth century. To be sure, international trade under the new global order can be equal and mutually beneficial, as for example between the developed countries of the world. But at the same time, it comprises even more unequal trade powered by gigantic, capital-rich multinational companies. The latter's historical antecedent had been companies such as the British East India Company, later to become trade cum extraction and invasion under imperialism. In the globalized era of the present, it is trade powered above all by the capital of giant multinationals, enjoying the new financial hegemony of the United States.

The latter should also be seen as part and parcel of "modern" marketism and trade. It uses capital-intensive products (or engages mainly in capital-intensive parts of the production chain), in conjunction with the cheap labor of developing countries, to earn strikingly high rates of return on its capital investments. The Apple company is an illustrative example. What the company undertakes itself is concentrated at the most capital-intensive and lucrative design and marketing ends (with profit rates as high as 30 percent), leaving the lower-return production and assembling of components to Taiwan's Foxconn company (with a profit rate of about 7 percent), while China provides the cheap labor, mainly by peasant-workers. That kind of production chain is well evidenced in the two largest Apple assemblage plants in Dongguan (in Guangdong) and Zhengzhou (in Henan), employing altogether about half a million workers. In that arrangement, by churning out just 12 percent of all smart phones produced in the world, Apple has been able to earn as much as 90 percent of the total profit of all smart phones produced, thereby attaining very high returns to its capital investments—as David Barboza of the *New York Times* has reported in detail (Barboza, 2016). On that basis, Apple has been able to enjoy the highest stock ratings (based above all on returns to capital investment) and has become almost a universally desired holding in stock portfolios, including those of giant retirement funds.

That kind of trade and market structure cannot be constructed as simple, equal, and mutually beneficial trade à la Adam Smith; it comes with a definite degree of Marx's construct of capital extracting the surplus value produced by workers in unequal production and trade. To be sure, such globalized capitalism has also lent added employment and some push for China's economic development, but there can be no doubt that the lion's share of profits has gone to Apple. It has been precisely such unequal terms of trade and China's gigantic pool of cheap labor that have made China the most desirable destination for global capital investments, with an estimated average return of 25 percent between 1979 and 1992, "shrinking" to 20 percent between 1992 and 2006, according to a Brookings Institute study (Bai, Hsieh, and Qian, 2006), at which rate capital investments double roughly every 3.5 years. All that was accomplished by the use of surplus labor from the Chinese countryside, a consequence of China's long-term agricultural involution. It is a reality that will yet continue for quite some time. But such phenomena have all been swept by Boettke under the ideological constructs of equal and mutually beneficial trade, as envisioned by Adam Smith.

The Actual Nature of Market Economies

By comparison with Boettke, Robinson's perspective is much broader. In her writings of the 1960s and 1970s, and in her article for the *Encyclopedia Britannica*, she points out the crucial blind spot of classical and neoclassical economics. First, the highly influential marketist theory of equilibrium simply does not accord with reality: it is predicated on imagining that all members of society are rational beings whose free choices, combined with the mechanism of optimization of competitive price-making markets, will lead to equilibrium between supply and demand and the best possible allocation of resources. However, as Robinson points out, such a view completely ignores the actual subjective imaginations and emotions of humans, which may be overly optimistic or overly pessimistic. Those two kinds of attitudes, over time, can influence the real world in powerful ways. In the process of historical change, they may lead to irrational behaviors and choices, which may impact the economic system as a whole, causing it to deviate from what might be considered objective and optimal equilibrium between supply and demand. As history has shown, those irrationalities can lead to calamitous inflations as well as depressions. To mitigate such disasters requires "interference" from the state. It was that kind of view that led to Robinson being considered for a time a Keynesian.

Along similar lines, Nobel economists George A. Akerlof (year 2001) and Robert J. Shiller (2013) have demonstrated at length that many enterprises, under conditions of asymmetric information between seller and buyer, exploit irrational human impulses and weaknesses to market for gain useless or even malignant goods, such as slot machines that can become habit forming for some, harmful amounts of tobacco and liquor, used cars that are “lemons,” highly risky financial market derivatives, useless and/or habit-forming drugs, junk foods, and so on—much as internet “phishing” manipulates “phools” who fall for their schemes. Those add up to a very different picture of market economy from that of classical and neoclassical economics and their assumptions of perfect competition and optimal equilibrium in the market (Akerlof and Shiller, 2015). Of course, massive marketization of the Chinese economy has led now to many of the same kinds of problems.

Robinson goes on to point out also the weak points of planned economies. They rely too much on state planning to dictate the allocation of resources, rejecting completely market mechanisms. When it comes to consumer goods, they still rely on retail markets to sell the goods to the people, but the production of such goods is entirely planned and controlled by the state, a system that is unable to meet the needs of consumers. After Robinson, that path of thinking would lead eventually to the views of the institutional economist János Kornai, who developed the concept of “economics of shortage” to characterize planned economies, using as illustration the pervasive long lines for consumer goods in the Soviet system (Kornai, 1992).

As for what methods might be used to cope with the problems of the two major kinds of economic systems, Robinson did not in her lifetime (1903–1983) provide a systematic answer. She rose above a simple belief in classical-liberal and neoclassical economics, but, except for Keynesian ideas of state interventions, and later also post-Keynesian reflections, she did not provide a well-worked out scheme for an alternative system, nor did she discuss systematically the Chinese economic system of the 1960s and 1970s.[3] Of course, she did not witness China’s efforts during the Reform era to look for a different kind of economic system and market economy by “feeling for stones while crossing the river”—not long enough to offer reactions to it and opinions about it.

The Part-Planned Part-Free-Market System of China

China’s Agricultural Economy after the Reforms

Chinese de-planning reforms began in the agricultural sector. First came the “contract responsibility system,” basically yielding to peasants the power to decide on what and how to produce, allowing them to make production decisions based on market demand, and allowing peddlers and small merchants, up to and including newly arisen agricultural commodities firms, to decide on how to market their goods, largely replacing the state-planned and organized supply and selling "co-ops."

With the active implementation in the 1980s of birth-planning policies, China by the turn of the century experienced for the first time (in its contemporary period) a gradual decline in the numbers of new members added to the agricultural workforce each year, thereby reversing the earlier trend of steadily declining farm sizes. Added to that was the fundamental change in the diets of the Chinese people that came with advancing incomes, from the earlier ratio of 8:1:1 of grains:meats:vegetables to the 4:3:3 model characteristic of higher-income Chinese areas such as Hong Kong and Taiwan, thereby propelling rapid development of what this author has termed the "new agriculture," with many small farms changing over to the production of high value added vegetables-fruits and meat-poultry-fish, amounting to a "new-agriculture revolution." It is an agriculture that is, compared to before, "labor and capital dual intensifying," best illustrated by the great spread of tented vegetable farms of 1, 3, and 5 mu (small, medium, large tents), fruit orchards of a few mu, and farms of 10 to 20 mu that combine farming with animal husbandry. By 2010, such new agriculture had come to account for two-thirds of the total output value of agriculture while using about a third of the farmland, driving thereby the rise of a hitherto unseen degree of such new-style marketized agricultural products. It greatly expanded the relative size of the free market economy in Chinese agriculture, bringing unprecedented changes to Chinese agriculture (Huang, 2016).

Even so, grain production has retained much of its earlier administratively planned character. The government continues to play a major role in setting grain prices, by storing as much as a sixth of total grain output, and by setting a floor for grain prices, at which point it begins to buy grain to boost prices, and also setting a ceiling for grain prices, at which point it sells stored grain, to help lower prices. This system does not give the state quite the same degree of control as under the planned economy, but nonetheless it is still a highly administratively controlled arrangement (Huang, 2017).

There also continue to be controls similar to those under the planned economy, as for example in the enforced policy of maintaining a thousand "big grain producing counties," where production is controlled by plan. That plan includes the enforced production of double-cropped rice. The latter requires nearly double the amount of input of labor and fertilizer as single-cropped rice, but brings per mu returns that fall short of one crop of single-cropped rice (because of diminished productive capacity of the land under an additional cropping, and because of the near doubling of capital and labor inputs, when the market value of both croppings is substantially lower than that of single-cropped rice due to peasant consumer preferences). The state can only sustain the system by subsidies and "project grants." Even so, the policy has met with much resistance from peasants as well as basic-level cadres (Huang, Gong, and Gao, 2014).

What these two types of agriculture in China today tell us is that the Chinese economy has changed into one that combines plan and market, both succeeding to aspects of the earlier planned economy and introducing the new capitalist market economy, resulting in the coexistence and interaction of both the planned and market economies.

The Rise of Township and Village Enterprises

Along with the responsibility system in land came another structural change: under the leadership of the state, rural township governments and many villages set up in the 1980s enterprises in accordance with local needs and conditions that were responsible for their own profits and losses, driving thereby the vigorous development of "rural township and village enterprises," making them the cutting edge of Chinese economic development of the time. Those enterprises obeyed not (what Kornai termed) "soft budget constraints" under which the government saw to the budget and maintenance of the enterprise whether profitable or not, but operated rather under "hard budget constraints," such that if unprofitable they would simply be allowed to collapse. That kind of development led Jean Oi and Andrew Walder to develop the concept of the "corporatist state" to explain the development driven by those enterprises (Oi, 1992, 1999; Walder, 1995). The idea was that the rural enterprises thrived because local township governments came to behave like corporations in capitalist market economies.

In the aftermath of about a decade of rapid development, those enterprises faltered for a time, but today they remain of major importance. Moreover, they set the background for the subsequent stage of development powered by "drawing in outside investments" 招商引资 and by "land financing" 土地财政.

The Capitalization of Land: A Distinctive Characteristic of China's Development Experience

The new stage differed from the earlier development of township enterprises in that it was no longer driven by the setting up of enterprises by township governments, but rather, in the 1990s, by the emergence of interactive collaboration between new-style state enterprises and private enterprises. It encompassed both the expansion and driving force of private enterprises, and the vigorous reorganization, development, and active participation of state enterprises. It was the two together that drove the next stage of economic development.

Their mode of collaboration can perhaps best be seen in the process of "capitalization of land" that came with the rise of an enormous real estate industry. First of all, China urbanized far faster than the Western developed countries: the change from a 30 percent urbanization rate to 50 percent took forty to sixty-five years in the Western countries (forty years in the United States, sixty years in Britain and France, sixty-five in Germany), but only fifteen years in China (Dong and Jia, 2020: table 1). After the government stopped providing public housing for urbanites in 1998, an immense private real estate industry grew rapidly to meet the need for urban housing. In that process, local governments turned (state allocated) "development land" into *the* major source for capital formation, injecting thereby huge amounts of capital into local government budgets, and enabling them to collaborate with emergent private real estate firms to drive rapid real estate development and to share in the profits of that development for infrastructure construction and other purposes.

To take a single mu of state allocated development land as an example, its initial cost to the government, in schematized terms, might be 10,000 yuan (to compensate the peasants whose "responsibility land" is being requisitioned for urban development), but, once the urban infrastructure (energy, roads, utilities, public transport and so on) has been added, its market value would rise tenfold, to 100,000 yuan per mu. The local governments were able thereby to fund the costs of infrastructure construction for urbanization. Further, in the process of building housing on development land, the market value of the original one mu would rise another tenfold to 1,000,000 yuan. The local governments were able to share in that anticipated profit by "selling" the land (in truth, leasing it for seventy years) equipped with infrastructure to private development companies to build housing. That kind of infusion of capital was what enlivened state enterprises that had been so deeply in debt as to be on the verge of collapse. The local governments, in fact, were able to use that resource even for the purpose of drawing in not just domestic capital investments, but also foreign direct investment.

As one scholar has suggested, the entire process of capitalization (of land) can be likened to IPOs (initial public offerings) on stock markets that have become the principal way for a company to raise capital in Western capitalist countries (Zhao Yanjing, 2014). What Chinese local governments relied on instead was government-owned development land as the principal means for capital formation, for both state and private enterprises, by taking advantage of the steady, predictable, and huge market demand for housing that came with urbanization and development. That is the true meaning of "land financing" in the history of Chinese development. State-owned development land (a legacy of the socialist revolution) is what lies behind the entire "capitalization of land" process, and is the key to understanding China's rapid and unique development experience, very different from Western development experiences.

A concrete illustrative example is the development experience of Chongqing from the 1990s, which this author has written about. Huang Qifan, the former mayor of Chongqing (deputy mayor from 2001–2009, mayor from 2009–2016, during which, acting mayor in 2009–2010), has given us a detailed account of how the government operated during his time in office. In addition to the development land allocated by the central government to Chongqing, that (directly administered municipality 直辖市, equivalent to a province) municipal government acquired also at very low cost the land owned by some 1,700 local state enterprises that were bankrupt or nearly bankrupt, so that under Huang, the municipal government "stored up" 储备 altogether 300,000 mu of land for urban development. It was above all that land—valued at 100,000 yuan per mu—that gave the Chongqing government the operating capital of about 300 billion yuan with which it could capitalize its so-called "eight big (infrastructure) development companies" that built and sustained the rapid development of Chongqing city (Huang Qifan, 2009; Philip C. C. Huang, 2011).

A key to the above system was of course the fact that the state owns all land in China—a legacy of the Chinese Revolution and its planned economy. The power conferred by that ownership far exceeds what in the West is known as the right of eminent domain, namely, that the state may requisition privately owned land for public use. In one, the point of departure is state ownership of all land; in the other, it is private ownership of land, which the state, within legal constraints, may requisition for the public good. The relative powers are very different; the Chinese state enjoys much greater power and latitude than any Western government.

Within that framework, the Chinese state has chosen a policy of gradual development. First, by setting a "red line" of requisitioning (gradually over a number of years) no more than 10 percent (200 million mu) of all cultivated land (2 billion mu). To be sure, the requisitioning of land has encountered significant resistance—mainly from suburban peasants who, knowing the huge amount of appreciation of market value to come, wish to obtain a larger share of those gains. In the face of that resistance, the state has had to resort first to legal actions as a supplementary mode of administration, and sometimes even to high-pressure tactics to enforce requisitions. (Even so, there have been many instances of peasant collective resistance, adding up to tens of thousands a year.) What is indubitable is that the process of turning land into capital ("capitalization of land") has been a major distinctive characteristic of Chinese development, very different from Western experiences.

If we look at the matter from the point of view of the amount of capital involved, China's 200 million mu of development land, after going through the capitalization process outlined above (using the schematized figure of 1 million yuan per mu), would add up to a total of 200,000 billion yuan, or roughly 30,000 billion U.S. dollars. If we compare that to foreign capital (FDI, foreign direct investment) drawn into China in the years 1998 to 2021—800 billion U.S. dollars—the capital derived from land capitalization in China amounts to no less than 37.5 times the total FDI from 1998 to 2021 (CEIC Data, 2021; Huang Zongzhi, 2021a). That gives us a glimpse at the staggering importance of the role that land capital has played in China's economic development. Just as in the Chongqing example cited above, the capitalization of development land has been the key to the rejuvenation of state enterprises teetering on the edge of bankruptcy, really the key to China's economic take off since the turn of the century. All this is very different from the development experiences of Western countries and may be considered a distinctive characteristic of China's experience.

Ironically, the call for PPP ("public-private partnership") that has become fashionable in the West since the 1990s seems on the surface to be about a similar kind of government and private partnership such as that in China. It is a misunderstanding that has caused some interpreters to mix up the two very different phenomena. In reality, the PPP model originates from neoliberal economic theory: its point of departure is that private entities, because of market competition and the profit incentive, are of necessity more efficient than public ones; therefore, the scope occupied by the state should be minimized, much as the classical laissez faire ideal of the state advocates. PPP, therefore, calls for minimizing the role of the state as much as possible, and maximizing that of the private sector as much as possible. Thus, PPP is in reality not a partnership between the public and the private, but rather the "privatization of (portions of) public services" (OECD, 2018; Economist Intelligence Unit, 2014; Public-Private Partnership, n.d.).

China's experience with the capitalization of land discussed earlier in this article is in fact completely different. Its core consists in the state using its ownership of all land to partially privatize part of that land (one mu at a time), after completing the infrastructure required for real estate development, in order to obtain from the newly developed private real estate industry—which has been the most dynamic, most profitable, and most predictable of all industries—a significant portion of its profits. That was how the local governments funded not only their costs for infrastructure construction, but also obtained more generally the requisite capital to attain liquidity for their bankrupt or nearly bankrupt infrastructure departments. In other words, the real meaning of such a practice was to use the (partial) privatization of government-owned land to generate capital for infrastructure construction and the provision of public services. This entailed the "(partial) privatization of public land for public services" (or PPLPS), very different in substance from PPP (which is actually privatization of [portions of] public services, as we have seen).

Of course, if we were to look at the real estate industry as a public service (which it indeed had been in the planned economy era), China's experience could conceivably be seen as a kind of privatization of a public service, but we must grasp that its reality is in fact very different from the PPP in the West, because the real estate industry after China's market reforms is by no means a generalized public service, but rather a highly individualized and privatized service, with great differentiations in value and quality, serving mainly private individuals who can afford such housing. That is nothing like a generalized public service provided to all citizens, such as energy provision or roads and subways. The Western concept of PPP, in short, should not be confused with the Chinese economy's distinctive combining of state-owned and private enterprises into a single economic system.

Toward Combining the Chinese and Western Experiences

In recent years, China, after undergoing the experience of its distinctive vigorous development of the past few decades, has arrived at some new formulations about market economy and marketism. First is separating out equal and mutually beneficial trade from unequal trade. The former is the idealized vision constructed by Smith, which indeed carries tremendous energy for propelling economic development. The latter, on the other hand, can be illustrated with nineteenth-century trading under imperialism, with its ugly face of resort to power imbalances, invasion, and war to impose "unequal treaties," not anything that China wishes to borrow from or imitate.

In Western classical-liberal and neoclassical economics, the two are one-sidedly idealized, eliminating the ugly face, to turn it into a self-justifying, universalizing, as well as ostensibly "scientific" construction, as for example by Boettke in his *Britannica* article. We need to distinguish clearly between the two. Only then can we see from the point of view of later developing countries the true historical meanings of market economy and marketism, and only then can we distinguish between the positive and negative sides of market economy, and acquire a knowledge and understanding of it that would be useful for later developing countries.

It was and is precisely that kind of view that formed the core background for China's adoption of the "one belt one road" initiative since 2013. It distinguishes sharply between equal and mutually beneficial trade from unequal trade. At the same time, it has added on to that understanding China's own experience with the crucial role played by infrastructure development for economic development as a whole. It was on the basis of that understanding that China founded the Asian Infrastructure Development Bank for the purpose of providing financing for developing countries. The bank has been supported by more than a hundred countries, including Austria, Britain, France, Germany, Italy, and Switzerland. Its five vice presidents come from Britain, Germany, India, Indonesia, and Korea. The initiative, of course, also is aimed at expanding both China's influence and the market for China's highly developed and relatively inexpensive infrastructure development enterprises (Huang, 2020).

The belt-road initiative comes not just from China's vision for equal and mutual benefit, plus a definite degree of self-interested gain, but also from historical coincidence. In the post-imperialist, post-colonialist present-day world, and under the regulation of the World Trade Organization (WTO) built on the (albeit) one-sided liberal vision of Smith, any country must obtain first the agreement of the other side, out of its own interests, to make a deal, and cannot resort only to imbalances in power to impose an arrangement. Under such rules of the game, whether for China or for other countries, an agreement is only possible with the consent of the other side.

Even so, as we have seen in the sections above on China's tradition of involution and of victimization by imperialist aggression, there remain imbalances between the capital-rich and capital-poor countries, differences in their respective rates of profits and returns, that still govern today's globalized market economy. Its reality remains some distance removed from Smith's notion of equal and mutually beneficial trade leading to spiraling development for both. Trade between developed and underdeveloped countries is, to be sure, no longer simply like that of the imperialist era, dictated mainly by military power and unequal treaties, but nevertheless, the benefits enjoyed by the country furnishing capital and that furnishing labor remain unequal, with the bulk going to the capital-rich side, very much unlike Smith's vision of equal trade for mutual benefit (Huang, 2020).

Informal Labor in China's Development Experience

In China's development experience, a determinative factor has been the presence of almost unlimited labor, given the long legacy of intense population pressure on the land. What the state adopted at first was the transitional strategy of "let some people get rich first." More concretely speaking, it allowed surplus labor to be used cheaply—particularly in the construction industry, but also in industries set up by capital investments drawn in from abroad, as well as in other domestic enterprises—as a major incentive for drawing in capital. At this point, that kind of informal labor (i.e., labor without protections and benefits under old labor laws) has rapidly come to encompass fully 75 percent of all of the urban employed, far exceeding the 20 to 25 percent range of developed countries (Standing, 2011), and more than even most other developing countries. Local governments are free to use such labor as chips for drawing in foreign investments, and may even provide other kinds of special terms and incentives (such as discounted land, tax benefits, and low-interest loans), deliberately allowing them to obtain the larger portion of profits, using those terms to turn China into the highest returning and most attractive destination for foreign investments, and using deliberately that kind of mechanism to drive China's development. Rural agriculture and peasant responsibility land have served further as a safety release valve—in the event peasant-workers lose their urban jobs, they can go back home to farming to maintain basic subsistence. That has helped China to ensure basic social order.

Only after those arrangements had worked for three decades, and only after a rate of economic growth of 9 percent a year had been sustained throughout that period, did the state turn to pay more attention to the wages and benefits of the peasant-workers employed in urban development. One action was to try to raise the proportion of those enjoying benefits and protections; another was to set up minimal welfare benefits for informal workers, to move gradually from the strategy of "let some people get rich first" to a more equitable, socialist strategy of "get rich together." Concrete measures have been taken, such as the "poverty alleviation" 扶贫 campaign launched in 2016, and the decision in 2017 to transfer 10 percent of the stock shares of state-owned enterprises to the national social welfare fund. In 2018, the government further issued a concrete Strategic Plan for Rural Revitalization 乡村振兴战略规划, with the declared intention that, by year 2050, rural China shall reach a "modestly prosperous" 小康 standard of living. It seems possible that that program will enhance mutually beneficial two-way rural-urban trade that might come to play a significant role in China's rural development. Of course, just how things will actually go remains to be seen (Huang Zongzhi, 2021b).

China's Part-Private Enterprise, Part-State-Owned Enterprise Market Economy

Even so, what is indubitable is that, since the reforms of the 1980s the Chinese economy has been transformed from an almost completely planned economy to a part-plan, part-marketized economy. Or, more concretely, a part-private and part-state-owned enterprise system. According to systematic estimates of two reports submitted to the U.S. Congress, state-owned enterprises have come to account for (only) about 40 forty percent of the total non-agricultural GDP (Hersh, 2012; Szamosszegi and Kyle, 2011), including especially public services and the energy and finance sectors. Outside of those, most GDP comes from private enterprises. The two together make up almost all of the Chinese economy.

This system bears some similarity to the "developmental state" of Japan and of South Korea, delineated in the research of Chalmers Johnson (1982) and Alice Amsden (1989). Compared to the laissez faire state of classical and neoclassical economics, the state in Japan and Korea has played a much larger role in directing resource allocation and capital investments, thus promoting economic development. This is the heart of the so-called East Asian model (Johnson, 1982, 1999; Amsden, 1989). The active role of the state in economic development in that model makes it quite similar to the socialist market economy of China.

But there are also fundamental differences. The East Asian model is fundamentally a capitalist market economy of mainly private enterprises, including giant zaibatsu (in Japan) and chaebol (in South Korea). But China is different in that the (non-agricultural) economy as a whole is nearly half state-owned.

To be sure, some observers will insist that China's state enterprises are really no different from private capitalist enterprises, both oriented mainly to profit seeking, and hence that the Chinese economy should be considered "state capitalism." But as we have seen above, that is not the case. For China's state-owned (and state holding controlling shares) enterprises are not simply profit-seeking entities but more importantly, serve the state's strategic purposes, including not least infrastructure public services. And, those have come increasingly in recent years to be involved in socialist concerns with "people's livelihood" and a more equal distribution of wealth.

In the belt-road policy, we have seen, there have been large measures of national strategic as well as people's livelihood concerns. At the same time, the state-owned 国有 (or state holding a controlling share 国有控股 of the stocks) enterprises have enacted such policies as "transferring" 10 percent of total stock shares to the national welfare fund. They have also been assigned a crucial role in the "rural rejuvenation" strategic plan to assist in rural development. Pursued over the long term, those policies stem clearly at least in part from the socialist ideals of the revolution and the goal of "get rich together," and help to reduce what was termed in the revolution the "three great differences."

Such a turn in strategic economic policies shows that one cannot use the category of state capitalism to understand the Chinese economic system, nor the developmental state model, and even less the classical and neoclassical laissez faire state construction or the purely competitive liberal marketism model, much less the model of the rational economic man and competitive pursuit of private profit model. By comparison with those, the Chinese economic system, including its market economy part, carries unmistakable dimensions of socialism. It is becoming ever more like the official Chinese construct of a "socialist market economy" (or, we might say, "marketized socialism" to convey its actual order in the historical process). To be sure, it remains a work in progress, still subject to trial and error in the course of actual practice, with its operative mechanisms still to be observed, conceptualized, and theorized.

On the one hand, China's state enterprises today have to a considerable extent been incorporated into the context of market competition mechanisms and constraints. First came their conversion into separate corporate entities, divided into the two large categories of commercial as opposed to service-oriented SOEs. Some of those firms have undergone IPOs on the Shanghai and Shenzhen stock markets, some even in international stock markets such as those in Hong Kong and the United States, selling portions of their stock shares openly to the public, and becoming subject to the incentives and constraints of the competition in profit rates and stock share prices. Today, there are already over a thousand state-owned companies that have done so. And, many of them have also undergone the process of dismissal of portions of their workforce, dispensing with "surplus" workers. At the same time, many local government-operated "image-building projects" have been subjected to market constraints, and weeded out if unprofitable. In 2003, the government established under its State Council the State-owned Assets Supervision and Administration Commission as the holding entity of stock shares of these companies as a way to maintain control over the decisions of their boards of directors. By such means, state-owned enterprises have become semi-corporatized, marketized entities. They have adopted to a substantial degree the competitive incentives and constraints of the market, even while the central and local governments retain control over them. They have in fact become part-capitalist and part-socialist entities. Their difference from conventional private corporations is that they do not operate simply for profit, but also for state policies and interests, and in recent years also increasingly social service considerations (State Council, 2020; Lin et al., 2020). The latter can perhaps be most clearly seen in the current shift in emphasis and direction from the overarching strategy of "let some people get rich first" to "get rich together"—a goal repeatedly proclaimed and asserted by both the state and the party.

Here we should note that China's joining together of state and private enterprises within a single economic system is by no means a solitary example in the contemporary world. As the Organization for Economic Cooperation and Development (OECD) points out,[4] just a decade ago the world's largest companies included only one or two SOEs; today, fully one-fifth of the world's largest companies are state-owned. The increase in SOEs, in other words, represents something of a global tendency. It is for that reason that the OECD undertook a systematic study of the organization and operating principles of SOEs (OECD, 2018).[5]

As for China's private enterprises, they too show significant differences from those of Western capitalist nations. To be sure, they are subject to a large extent to the forces of market competition and of supply and demand. But, at the same time, they are also highly dependent on the government. Without government approval and (often) also assistance and funding, they simply could not have been established in the first place, not to speak of undertaking IPOs. Without the support of the highly centralized state-owned financial institutions, they face grave difficulties in raising capital. They are thus very much unlike Anglo-American private enterprises in their relationship to the state and are subject to interference from state authorities at any time.

Which is to say, we cannot comprehend the Chinese economic system through mainstream marketist economic theories, including their binary-opposition mode of thinking about state versus private enterprise relations, and need to employ instead the perspective of unified and interactive dualities to comprehend their working relationship. In Western mainstream liberal economic theory and systems, state and private enterprise are clearly juxtaposed and separate: state entities are not allowed to earn profits, while private enterprises are totally profit-oriented. But in China, state entities may be public service entities, as well as profit-seeking entities—we saw above how, in the gigantic process of the capitalization of land, the "eight big" state infrastructure companies of Chongqing used state-allotted development land to raise capital and make a profit, while undertaking the necessary infrastructure construction for public services and urban development. Which is to say, to understand the workings of the Chinese economic system and its market economy system, we need to approach the matter from the point of view of the often interactive and cooperative relationship between the market and the state, and private enterprises and state enterprises. That makes everything very different from our customary juxtaposition in mainstream economics of one against the other. It is different also, of course, from the classical Marxist juxtaposed opposition between workers and capital in capitalist systems.

Moreover, we can see that since entering into its Reform era, China has long been operating in a "feeling for stones while crossing the river" mode.

To a considerable extent, it is doing so still. Just how its economic system will shift from the guiding strategy of “let some people get rich first” to “get rich together” is a question that awaits further observation and study, especially so in terms of how quickly, to what extent, and by what methods and means the new strategy will be implemented—many of those have yet to be concretized, observed, and conceptualized.

Even so, some basic characteristics and tendencies are already relatively clear. The Chinese economy will remain for a long time a mixed and syncretic entity, neither simply capitalist nor simply socialist, neither simply a liberal or neoliberal market economy nor simply its opposite of a planned economy, but rather a combination and mixing of the two. As far as its more concrete and detailed forms and patterns go, most especially in terms of their operative mechanisms and principles, they are still in a process of formation, many yet to be observed. Just precisely how capitalist market economy and socialist planned economy, private profit-seeking and public-interest incentives, and leadership from above and participation from below, and so on, will be joined and operate together remains to be seen.

What is likely is that the new political-economic system in the process of formation in China is and will be very different from what we are accustomed to, and that it will not be understandable solely in the terms of conventional Anglo-American marketism. Nor can it be grasped in terms of the new so-called public-private partnership (PPP) construct, which stems fundamentally from the same neoliberal wellsprings. It in fact cannot be grasped simply in terms of a juxtaposed opposition between market and state and their supposed operative mechanisms. What we need is to rise above the two modes of thinking (and of ideology) as summarized in the two *Britannica* articles that have been used as convenient foils for our discussion in this article. We need to start instead from grounded realities, from research that takes account of the new system in the process of formation in China. We need on that basis to move step by step toward a new political economy that can grasp and understand the emerging economic system in China that combines private and state enterprises, and market economy and state participation.

While classical-liberal and neoliberal political economy dichotomizes state and economy into opposed entities, and classical Marxist political economy collapses the state into the “superstructure” of class relations, the new Chinese political economy is based on the interactive and combined whole of the dualities of state and economy, state-owned enterprises and private enterprises, and even socialism and capitalism or marketism. That combination has thus far proved to be successful and viable, its multiple difficulties and remaining problems notwithstanding. It calls upon us to develop a new political economy that can better grasp and understand its still evolving characteristics and mechanisms.

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Notes

1. Boettke also identifies with the so-called Austrian school of Friedrich von Hayek. See https://www.peter-boettke.com/bio.
2. In addition, as Robinson points out, unlike the common modern conception of trade, there was also trade under China's imperial tributary system in which the emperor "gifted" or "bestowed" goods in return for "tribute."
3. She did express at one time admiration and approval for the Cultural Revolution's ideal of societal mobilization from below (see her short book, Robinson, 1969)—however, she did not in the end include such ideas in her article for the *Britannica*.
4. China is not one of the thirty-eight members of the OECD (as of 2021) but is one of the five so-called "key partners" (along with Brazil, India, Indonesia, and South Africa) (OECD, 2021).
5. This research is based mainly on data of the thirty-five member countries (as of 2018), but also includes some data on China (OECD, 2018).

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Author Biography

Philip C. C. Huang has just published his new three-volume work (in Chinese). Vol. 1, *China's New Peasant Economy*, updates his earlier three volumes on China's peasant economy from the Ming-Qing to the present, including prospective thoughts about future development; Vol. 2, *China's New Justice System*, does the same for his earlier three-volume work on China's justice system from the Qing to the present; and Vol. 3, *China's New Informal Economy* (i.e., urban employees without legal protections and benefits of the old labor laws), examines the process and dimensions of change (now accounting for three-quarters of all urban employees), the new legal system accompanying those changes, and prospective thoughts.