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China's "Economic Miracle" and the Universal Modernization Model

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Abstract

Neoclassical economics relies on highly formalized deductive logic to create an overly simplified picture of economic practices. Its universalized model of modernization assumes that the relationship between state and market is antagonistic. This presumption reduces China's "economic miracle" to a simple transformation into a market economy and underestimates the role played by the government, making it impossible to construct a theory that considers China's subjectivity. Studies on China's economy should focus on its practices, which may appear to be paradoxical if seen only from the perspective of Western neoclassical economics, in order to construct an accurate depiction of the foundations of China's development experience. Only through such an endeavor will it be possible to incorporate into any new theory of economic modernization the distinctive features of China's development.

Keywords

China's economic miracle, neoclassical economics, modernization theory, China's development path

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China's "economic miracle" has provided a solid foundation for building a theory "with Chinese characteristics." In a speech celebrating the fortieth anniversary of the reform era and China's opening up to the global economy, Xi Jinping declared that "China's domestic GDP grew from 369.9 billion to 82.7 trillion yuan by 2017, with an annual growth rate averaging 9.5 percent," and that "the past forty years have shown us that the direction of China's development has determined the path [we should follow], which in turn determines the future. If we want to take our future into our own hands, we must stride forward on that path with resolve" (Xi, 2021: 221, 228). Some economists argue that there is no other major country in modern times that has shown a record of economic growth as robust and steady as China. China's GDP overtook that of Japan by 2010, signaling that China had become an economic powerhouse second only to the United States (Zhou Li-An, 2017: 1). The building of an economic theory that can account for China's experience should be rooted in the country's actual economic practices. China's remarkable economic growth in the reform era has indisputably demonstrated the validity of the country's development path. What is needed now is a new theory of development that can explain China's record.

Such a theory is especially needed because of the striking contrast between China's experience and that of the Soviet Union and the former communist states of Eastern Europe. As is well known, the main objective of the Washington Consensus was to "eliminate government interventions and distortions so as to create a private-property-based efficient, open, competitive market economy" (Lin, 2019: 125). The shock therapy employed in the former Soviet Union and Eastern European (FSUEE) countries to promote the transition to a market economy was a version of the Washington Consensus: private ownership is the foundation for a well-functioning market system; real market competition requires a genuinely private sector; most problems encountered by state-owned enterprises (SOEs) in a transitional economy can be ameliorated by rapid privatization; privatization must take place before SOEs can be restructured; economic transformation requires comprehensive and big-bang price liberalization; government fiscal discipline must be tightened to maintain macroeconomic stability, enabling prices to guide resource allocation and support an efficient market mechanism (Lin, 2019: 125).

However, the outcome of the shock-therapy transition model in these countries was contrary to the optimistic predictions of mainstream Western economists. World Bank statistics show that during the first decade of Russia's transition, the inflation rate reached 163 percent a year, while in Ukraine it shot up to 244 percent; the cumulative output in the countries in Central and Southeastern Europe and the Baltics declined by 22.6 percent; and output in countries within the Commonwealth of Independent States fell by 50.5 percent. In 2000, Russia's GDP was only 64 percent of what it had been in 1990, while the GDP in Poland, the best-performing economy in the FSUEE, increased by only 44 percent compared with 1990. At the same time, the Gini coefficient of income per capita increased in most of these countries. In addition to suffering from severe inflation and economic decline in the first decade, these countries also experienced a raft of difficulties associated with their economic reform: output declined; capital shrank; labor was displaced; trade was disrupted; structural change was chaotic; institutions collapsed; and transition costs increased (Lin, 2019: 126–27).

The contrast between China's experience and that of the FSUEE could not be sharper. That fact inspired the international academic community to seriously consider the theoretical significance of China's economic development. As the sociologist Andrew Walder observed,

> China has looked more like a sprinting East Asian "tiger" than a plodding Soviet-style dinosaur mired in the swamps of transition. [. . .] It is moving to the centre of international policy debates about what is to be done to transform the stagnating economies of Eastern Europe, and various aspects of its case now figure prominently in academic analyses ranging from theories of the firm and property rights to the political foundations of economic growth. (Walder, 1995: 963)

The success of China's economic transformation has inspired some people to conclude that there cannot be a universal model of modernization. Instead, the economic path of modernization that countries choose depends on their unique institutional systems, historical traditions, and specific political conditions.

When investigating the factors behind China's choice, scholars have raised questions about the methodology of the social sciences. Can the Western capitalist modernization model be applied universally? How has China's experience impacted universal modernization theory? Can we build a modernization theory that takes into account, and explains, China's experience? In order to address these questions, we turn below to deconstructing the universal model of modernization and the Western mainstream economics methodology that casts the state and the market as in opposition.

Neoclassical Economic Theories and the Establishing of a Universal Model of Modernization

The notion of "universal modernization" is an outgrowth of a powerful historical tradition in Western cultures that views Western economies as superior to all others. In Philip Huang's words,

> Beginning in the eighteenth-century Enlightenment, [. . .] as the West began to embark on its Age of Reason, a strong sense of Western distinctiveness from all other world civilizations took hold and, as Reason and Science advanced, to be followed by capitalist industrialization, there came a stronger and stronger sense of the West's superiority and universal validity. [. . .] Georg Wilhelm Friedrich Hegel (1770–1831), who regularly gave lectures on China during the final years of his life, [declared that] China had no philosophy to speak of, only the rudiments of abstraction, and nothing of the sustained "speculative" thinking that characterized classical Western philosophy. [. . .] Hegel's modernist views found later and more systematic expression and development in many others, most influentially Max Weber (1864–1920). For Weber, modern law [. . .] needs be unified by "formal rationality," in which all abstract and rationally/logically derived legal principles could be applied consistently and logically to all fact situations. China lacked such a legal system, and hence could only be "substantivist" in its laws. [. . .] Chinese law, moreover, was subject always to the arbitrary interference of the "patrimonial" ruler, whether by whim or by particularist morality, and hence was "irrational." (Huang, 2016: 139–40)

To the extent that theorists in this tradition consider China at all it is as a foil and "the other" to be wielded in the development of theory. Which is to say that in their thinking China has no theoretical significance of its own.

Since World War II the Western notion of universal modernization has had a far-reaching global presence. Private property rights, free markets, formal legal rationality and bureaucracy, and civil society have become the universal standards of modernization and dominant concepts in the social sciences. The Social Science Research Council formed an economic development committee in 1950 and went on to organize a series of academic activities, followed in 1952 by the founding of the influential journal *Economic Development and Cultural Change*. Several academics from the committee jointly self-funded the establishment of a number of other important journals. These academics constituted the backbone of the school of modernization. As Sun Liping has noted, "in the 1950s, modernization scholars undertook numerous empirical and theoretical studies that paved the way for the formation of systematical theories of modernization" (Sun Liping, 2008: 89). During the 1950s the Western Cold War ideology influenced modernization theories, as can be seen, for example, in *Stages of Economic Growth: A Non-Communist Manifesto* (1960) by Walt W. Rostow (1916–2003), an important pioneer in the field of development economics (and also a staunch supporter of the Vietnam War).

The idea of universal modernization became highly influential after the Cold War. Francis Fukuyama's widely discussed *The End of History and the Last Man* (1992) argued that

> a remarkable consensus concerning the legitimacy of liberal democracy as a system of government had emerged throughout the world over the past few years, as it conquered rival ideologies like hereditary monarchy, fascism, and most recently communism. More than that, however, [. . .] liberal democracy may constitute the "end point of mankind's ideological evolution" and the "final form of human government," and as such [. . .] the "end of history." [. . .] While earlier forms of government were characterized by grave defects and irrationalities that led to their eventual collapse, liberal democracy was arguably free from such fundamental internal contradictions. (Fukuyama, 1992: xi)

While Fukuyama built his notion of the end of history on the basic ideas of Hegel and Alexandre Kojève, he considered philosophical discussions to be reality itself. Although, following the collapse of the Communist governments in the Soviet Union and Eastern Europe, Fukuyama and his "end of history" attracted a great deal of attention, his argument hardly went unopposed. In fact, his former mentor, Samuel Huntington, criticized *The End of History* as reflecting a Cold War perspective that was not in line with actual global developments. As Huntington noted, following the Cold War many different forms of government still existed (Huntington, 2010 [1996]: 46).

The Western universal modernization theory has played such a hegemonic role throughout the world that any conceivable alternative theory based on non-Western realities cannot gain traction. Neoclassical economics, the font of the notion of universal modernization, uses highly formalized deductive logic to exclude substantive elements, such as history and ethics, from theory building. In reaction, Nobel laureate Amartya Sen has argued that the "homo economicus hypothesis" in Western mainstream economics is clearly an oversimplification of complex human behavior. In addition, he has emphasized that ignoring the influence of ethics on human behavior is unrealistic (Sen, 2018 [1989]: 9). Sen's critical analysis points to the need to reconsider the tension between theory and practice in Western mainstream economics. We begin with a brief review of the evolution of Western mainstream economics, highlighting how, in constructing a universal model of modernization, it has portrayed the state and market as antithetical.

Adam Smith, generally regarded as the father of modern economics, emphasized the dichotomy between the state and the market, a notion universalized by his successors, thus becoming *the* basic standpoint of Western mainstream economics. Smith's analysis of the relationship between labor and capital focused on explaining the productive nature of capitalism. Smith regarded capital as the foundation of the value created by labor and believed that the value added by labor to raw materials resolves itself as not only wages but also profits and rent (Smith, 1977 [1776]: chapter x). Subsequently, Smith analyzed the specific mechanism of social wealth reproduction, which later profoundly influenced Karl Marx. In advocating a free market, Smith argued that only unfettered competition can promote an increase in social wealth. He also criticized physiocracy and mercantilism, arguing that they undercut market freedom. The practice of achieving wealth growth through state intervention, he contended, runs counter to its original intention:

> Every man, as long as he does not violate the laws of justice, is left perfectly free to pursue his own interest his own way, and to bring both his industry and capital into competition with those of any other man, or order of men. The sovereign is completely discharged from a duty, in the attempting to perform which he must always be exposed to innumerable delusions, and for the proper performance of which no human wisdom or knowledge could ever be sufficient; the duty of superintending the industry of private people, and of directing it towards the employments most suitable to the interest of the society. (Smith, 1977 [1776]: 914)

Smith's emphasis on the dichotomous opposition between the state and the market was further formalized by David Ricardo using deductive logic to demonstrate the rationality of England's laissez-faire policy. Ricardo believed that political economics is a rigorous science like mathematics. He created a deductive method, later known as model analysis, that begins with building a theoretical system based on series of hypotheses about labor value, land rent, the natural wage rate, the wage fund, and comparative advantage; then moves to abstracting the basic elements from economic issues, and applying the above hypotheses to explore the interaction between the elements; and finally ends with a series of policy recommendations with laissez-faire as their core (Guan and Zhang, 2014). By closely linking deductive logic with laissez-faire policies, Ricardo expressed his opposition to state intervention and his belief that only a system of commercial freedom can promote an increase in social wealth (Ricardo, 2013 [1817]: 63).

Ricardo's thinking was extended by neoclassical economists, most notably Alfred Marshall. Marshall and others further applied deductive logic in economic research, which promoted both the development of Western economic theories and highlighted the axiomatization of economic research, and the proposition that the state and the market stood in an opposed dichotomous relationship (Marshall, 2013 [1890]: chapter v). Subsequently, the deductive method came to occupy a dominant position in economic research. This can been seen in the work of, for example, William Stanley Jevons, who strengthened the individualistic analysis of the deductive school; Francis Ysidro Edgeworth, who proposed the contract curve based on the marginal utility theory; John Bates Clark, who developed the marginal productivity theory; Vilfredo Pareto, who developed the ordinal utility theory and the indifference curve; and John Hicks, who put forward the concepts of income effect, substitution effect, and substitution elasticity, thus establishing a complete consumer theory (Guan and Zhang, 2014). While all these contributions have been valuable, neoclassical economics continued to ignore the fact that any hypothesis ought to be realistic. Under the influence of neoclassical economics, development economics, which by its nature is closely related to reality, focuses on how certain economic factors affect growth, rather than on the complex relationship between economic development and national policies. William Arthur Lewis's economic development theory, Robert Merton Solow's economic growth convergence model, and Robert Lucas's economic development theory, all essentially focus on the growth mechanism theory, rather than general theories on economic development strategy (Zhang Jun, 2013).

Following Marshall, neoliberals such as Ludwig von Mises, Friedrich von Hayek, and Milton Friedman strongly opposed state intervention and adopted privatization as a key concept. Hayek and other neoliberal theorists attacked socialist public ownership, and in the process oversimplified the relationship between private ownership, economic calculation, and rational economy. This thinking, which ideologized the relationship between state and market, denied that there could be any positive connection between socialist public ownership and a rational economy (Bao, 2017).

Today, Western mainstream theories mainly rely on formal deductive logic to achieve internal consistency. Although a clear explanation of the interconnectedness of an economy is useful, mainstream approaches oversimplify actual economic practices. By conjuring up a repertoire of dichotomous concepts such as state and market to interpret economic practice, neoclassical economics has established a set of linear causal chains and standard systems of modernization, thus buttressing the claim that Western capitalism is the only path to modernization. Therefore, in attempting to understand China's path of modernization, Western mainstream economic theories are hobbled by three closely interconnected problems.

First, from the perspective of theoretical assumptions and logical starting points, Western mainstream economics presupposes that socialist public ownership and market coordination cannot be other than antagonistic and incompatible, and thus state intervention and socialist public ownership will inevitably result in economic inefficiency. This presupposition is deeply engrained in virtually all of Western economics, from classical economics to neoclassical theory, to Keynesianism and the neoclassical synthesis, to neoclassical macroeconomics, and so on. They all deny the possibility of combining socialist public ownership with market mechanisms, and they all consider central planning to be inefficient, and even morally wrong (Liu, 2017). Based on this conviction, scholars in the Western mainstream have constructed an assemblage of linear models for understanding economic development, in particular models that posit a linear relationship between the competitive market mechanism of private property rights and economic development. As colonial expansion over the past centuries led to the global dominance of Western capitalism, this ideology became an unquestioned "normative understanding," and formed the basis for the modernization model of economic development. The problem with this ideology, however, is that it fails to recognize that modernization can follow many paths.

Second, in terms of research methods, Western mainstream economics uses deductive logic to exclude specific substantive elements, such as production relations, from the scope of research. Moreover, in considering economics to be a discipline like the natural sciences, and in wielding predetermined axioms, it makes extensive use of mathematical language in an effort to establish a certain and absolute truth, all the while turning a blind eye to the complexity of human economic behavior and the significance of economics in social welfare. Following Jevons, who believed that marginal utility rather than labor determined value, the utility maximization of the individual became the starting point of economic research. At the same time, calculus was applied to economic research, promoting the consistency of concepts and logic in economics. Thus, economics increasingly resembled the physical sciences, with deductive logic and individualist methodology becoming basic features of Western mainstream economics (Guan and Zhang, 2014). Treating economics as a discipline like the natural sciences inevitably means that research findings are thought to apply to any and all countries. However, by considering economics merely as the science of utility maximization, mainstream Western economics has distanced itself from the real world by neglecting the significance of historical traditions and cultural differences between and within countries as well as the complexity of human economic behavior. In addition, taking wealth growth alone as the standard for modernization overlooks the symbiosis between humans and nature and economic development and human development.

Third, based on the aforementioned presuppositions and methods, Western mainstream economics rules out the possibility of any path to modernization other than through capitalism. In recent decades, economic history research has demonstrated that Western capitalism, like that of England, is not the inevitable and sole path for realizing economic modernization. Moreover, China's remarkable economic growth in the reform era has demonstrated the inadequacy of the fundamental assumptions of Western mainstream economics. Hence, what is needed is a modernization theory that recognizes China's realities. Such a theory can only be built on the basis of a thorough review of China's economic practices.

The New Institutional Economics Explanation of China's Economic Miracle

This section explores the main problems that Western economic theories face in explaining China's remarkable growth in the reform era and why a modernization theory that can account for China's experience is needed. The major attempt in this journey has been via new institutional economics, an outgrowth of neoclassical economics and the most influential economic perspective among Chinese academics.

New institutional economics, spawned by the seminal work of Ronald Coase, is essentially a successor to neoclassical economics. It departs from its precursor, however, in its attempt to narrow the gap between economic theories and economic realities. Coase noted that neoclassical economics assumes the existence of the firm and the market. However, he believed that economic assumptions should be "both manageable and realistic." He argued that "in the absence of transaction costs, there is no economic basis for the existence of the firm" (Coase, 1990: 14), and that

> firms will emerge to organize what would otherwise be market transactions whenever their costs are less than the costs of carrying out the transactions through the market. The limit to the size of the firm is set where the costs of organizing a transaction become equal to the cost of carrying it out through the market. (Coase, 1990: 7)

In short, Coase contended that "so much that happens in the economic system is designed either to reduce transaction costs or to make possible what their existence prevents" (Coase, 1990: 30). Coase's theory clearly expands the scope of neoclassical economics, and its fundamental arguments are consistent with the presuppositions of Western mainstream economics. Specifically, it emphasizes that clearly defined private property rights are a prerequisite for economic development, and state intervention will only increase transaction costs. Douglass North further explored new institutional economics with his research on the sources of the West's economic success and concluded that efficient economic organization is the key to economic growth in the West (North and Thomas, 2017). Yoram Barzel claimed that new institutional economics pays special attention to property rights because of the existence of transaction costs in real market transactions (Barzel, 2017 [1997]: 11). In short, from the perspective of new institutional economics, only market competition based on private property rights can ensure economic efficiency.

The basic propositions of new institutional economics were essentially extended to the analysis of the socialist economic system by János Kornai. Kornai believes that a socialist economy, unlike a capitalist economy, is a "shortage economy." The distribution of resources in a socialist economy relies on "bureaucratic coordination" and, as a consequence of "soft budget constraints," production efficiency within enterprises is low. As the various elements in the system paradigm are closely connected, Kornai (1992) proposes a series of binary-opposition concepts and believes that only through complete privatization can the problem of soft budget constraints be solved. The drastic problems in the former Soviet Union and Eastern Europe led Kornai to neoliberalism as a solution. He explicitly denied the possibility of a sui generis and third path—that is, other than the capitalist model and classic socialist model. Although Kornai acknowledges that his analysis is based on empirical studies of the Hungarian economy, he also claims that they are universally valid (Kornai, 2016 [1994]). It would almost be an understatement to say that Coase and Kornai have deeply influenced Chinese economic theorists.

The new institutional economics explanation of China's economic development mainly emphasizes that China reduced transaction costs through market-oriented reforms and established clearly defined property rights, a prerequisite for economic development. In essence, it treats China's economic reform as a bottom-up phenomenon and assumes that the state's step back from the economic field has reduced transaction costs, thereby promoting economic growth and development. This explanation mainly follows the logic of free market fundamentalism, prominently represented by Steven N. S. Cheung and Zhou Qiren, who believe that determining how to reduce the operating costs of supranational corporations as well as institutional costs were key to China's economic miracle (Zhang Wuchang, 2017: 130; Zhou Qiren, 2010). New institutional economics has been so prominent in China that it has even influenced the country's economic decision makers.

The mainstream analysis of China's economic reforms emphasizes free market fundamentalism, while ignoring the political basis for the success of the reforms and the continuity of socialism. Such an analysis therefore cannot be a foundation on which to build a theory with Chinese subjectivity. New institutional economics' contention that state intervention is inefficient does not accurately reflect the situation in China in the reform era. In fact, China has never adopted the "shock therapy" approach of complete privatization. Unlike in the former Soviet Union and Eastern European countries, in China the implementation of the "grasp the big and let go of the small" policy has not led to the complete privatization of SOEs. In fact, SOEs still occupy a pivotal position in China's economy. Furthermore, China's rural land property rights have not been privatized, but instead have been divided into a trifurcated structure consisting of rural land ownership, contract rights, and the right to manage the land.

Although new institutional economics infers that state intervention must be inefficient, this obviously is inconsistent with the actual situation in China since the reform and opening up. The Chinese government has played a positive role by establishing special economic zones, promoting the rise of township and village enterprises, pursuing the reform of SOEs, and encouraging the development of private enterprises. Since the 18th National Congress of the Chinese Communist Party (CCP) in 2012, the state has played a leading key role in alleviating poverty, combating major epidemics, constructing infrastructure, and building what the CCP calls an "ecological civilization." Looking more closely at each of these roles, first the state has clearly incorporated the building of an "ecological civilization" into its strategic plan and has put the concept into practice. Likewise, poverty alleviation has been an important part of China's national strategic planning. In 2011 the State Council issued the "Outline of China's Rural Poverty Alleviation and Development (2011–2020)" and launched a "targeted poverty alleviation" campaign. The fight against poverty has been a major achievement. The state has played an even more significant role in the fight against major epidemics. State involvement in the economy, in projects such as assisting Wuhan during the recent COVID-19 pandemic and in scientific and technological research, is of inestimable importance. The same is true of the irreplaceable role performed by the state in developing information technology, smoothing the supply chain, and promoting industrial growth and development (Lu and Feng, 2021; Wu and Peng, 2020; Sun Yongmei, 2021; Kan, 2020).

In recent years Western think tanks have assessed in detail the role of the Chinese state in economic affairs. A report on China's national strategic trends published by the RAND Corporation in 2020 underlined the important role of the state's economic strategy. The report noted that China's economy, which has undergone rapid growth over the past forty years, "will likely surpass the United States within the coming decades" (Scobell et al., 2020: 48). Nevertheless, China's rapid economic growth has come at a price, and its economic development has been imbalanced. The report analyzes the imbalances and challenges in China's economic development under the themes of "large economy but relatively poor citizens," "high investment and low consumption," "high reliance on exports," "shrinking workforce and aging population," and "high production but low integration of intellectual property" (48–49). The report acknowledges the positive role played by China's two major development strategies, the Belt and Road Initiative and Made in China 2025, which are aimed at coping with the issues surrounding unbalanced economic development (Scobell et al., 2020: 50–53).

The differences in the role of the state in economic development in China and in Western countries are closely related to the differences in state capacity building in modern China and the West. The sociologist Michael Mann drew an important distinction between the degree of government centralization, "despotic power," and the degree of governmental reach into society, "infrastructural power" (Mann, 1984). Based on Mann's work, Philip Huang further underlined that modern China differed from Western countries in that it was once a semi-colony. Additionally, throughout the revolution China relied largely on the peasant economy, and China's special capacity-building process was such that China would not adopt shock therapy and the Western model (Huang Zongzhi, 2019).

To build a political-economic theory in line with China's realities, it is essential to recognize that the state plays an indispensable role in the economy. Attempts to explain China's economic miracle have been gradually maturing. A good example is the use of the Western notions of fiscal federalism and modern contract theory to analyze local government competition in China and its role in economic development. This example, which has been dubbed the local government competition school, suggests that the key to building a political-economic theory of socialism with Chinese characteristics is not to debate the applicability of Western economic thinking, but rather the effectiveness of such a theory in explaining China's economic practices. Xu Chenggang, Qian Yingyi, Gérard Roland, and Barry Weingast, among the first scholars to discuss the relationship between fiscal decentralization and local government incentives and economic growth in China (Zhang Jun, 2007; Montinola, Qian, and Weingast, 1995; Qian and Roland, 1998), conducted in-depth analyses of the incentive mechanism of China's local governments to illustrate the theoretical significance of the country's spectacular economic growth.

Xu and Qian's research has deeply influenced scholars such as Zhou Li-An, who has explored economic competition among local governments and the incentive mechanisms behind their behavior. The centerpiece of Zhou's analysis is the "promotion tournament model." According to Zhou (2007), the key to understanding the incentive system and economic growth since the 1980s is the competition among local officials in the race to boost GDP. Zhou uses "bureaucracy + market" to illustrate China's unique approach to economic growth and the interaction between the state and market. This new framework incorporates his earlier notions of "political tournaments" and the "administrative contracting" model and expands on the "comparative institutional analysis" research approach of his mentor, Aoki Masahiko. Zhou posits that China's economic growth has been fostered, first, by competition among local officials aiming to advance their careers through aggressive promotion of economic development within their jurisdictions, and second, by market competition among enterprises. His model stresses the significance of government-enterprise collaboration for economic development and identifies three conditions for positive and effective collaboration: provision of political incentives to local governments, external market constraints, and an information feedback and guidance mechanism. The "bureaucracy + market" growth model provides these three crucial conditions (Zhou, 2018). The local government competition school obviously attaches considerable importance to the role of government in China's economic development and enriches the analysis of China's economic development.

The rise of local government competition in China strikingly contrasts with the pattern of economic reform in the former Soviet Union and Eastern Europe. Frye and Shleifer (1997) differentiated between three ideal types of the role of government during economic transition, two of which are relevant for our discussion here.

> Under the *invisible-hand* model, the government is well-organized, generally uncorrupt, and relatively benevolent. It restricts itself to providing basic public goods, such as contract enforcement, law and order, and some regulations, and it leaves most allocative decisions to the private sector. Many countries in eastern Europe, particularly those hoping to join the European Community [. . .], have looked to this model in their reforms. [. . .]
>
> Under the *helping-hand* model, commonly invoked in discussions about China [. . .], bureaucrats are intimately involved in promoting private economic activity: they support some firms and kill off others, pursue industrial policy, and often have close economic and family ties to entrepreneurs. (Frye and Shleifer, 1997: 354)

As Frye and Shleifer note, local governments can support businesses and thereby promote a successful transition (Frye and Shleifer, 1997). This point returns us to the local government competition school and reminds us of the crucial role that local governments have played in China's economic practices. In short, research on local government competition in China shows that attempts have been made to establish an economic theory with China as the subject. This school is very skillful in using Western economic theories, attaches considerable importance to the complex relationship between the government and the market in China's economic development, and does not simply accept Western theoretical presuppositions.

However, the school suffers from significant shortcomings. As its analytical tools and discourse system is derived from Western mainstream economics, it demonstrates in a different way that Western mainstream economics can be used not only to analyze the incentive mechanism of market entities but also to analyze local government behaviors, thereby further expanding the logic of free market fundamentalism, and easily overlooking the ways in which government involvement in the economy differs from that of market entities.

Needless to say, any political-economic theory of Chinese socialism should explain China's economic modernization and address any problems arising in that process. This does not necessarily require depending on Western mainstream economics, but it does require coming to grips with China's realities.

China's Economic Practices and Building a Political-Economic Theory

A political-economic theory in line with China's realities should reflect the substantive characteristics of socialist modernization and focus closely on the relationship between the state and the market in practice. First, to account for China's remarkable growth during the reform era, an in-depth study of the invaluable experience of the integration of the economy and the state should be conducted. Second, an in-depth analysis of how to further integrate the two should be performed following the entry of China's economy into a period of high-quality development. This will require the establishment of a forward-looking political-economic theory that considers the issues relating to social justice that have emerged from China's economic practice. As discussed below, Marxist theory provides much inspiration for such new forward-looking ideas.

First, Marxist theory has played an important role throughout China's economic modernization, forming a practical foundation for the establishment of a political-economic theory of socialism "with Chinese characteristics." Marxist political economics has largely only focused on production, despite Marx's insistence that productivity and production are closely related. Western mainstream economics emphasizes productivity alone, while Marxism focused on class polarization and the negative impact of capitalism on wealth creation, the basis of Western mainstream economic theories and practices. Commodities fundamentally reflect social relations; hence Marx starts his critique of capitalism with an in-depth analysis of the attributes of commodities. This analysis demonstrated that value appreciation is a process of surplus value generation and of capital's continuous exploitation of labor. Capitalist production contributed to the increasing conflict between the two major classes of industrial society and ensured that non-Western countries would be subordinated to Western capitalist countries (Marx, 2004 [1867]).

Marxist theory can, in addition, provide a solid foundation for a political-economic theory of socialism with Chinese characteristics since it emphasizes both economic development and human development, which is in keeping with China's alternative path of economic modernization. Furthermore, it provides insights into the operation of a world system in which countries are invaded and exploited, a situation with which China has ample experience. Although its insights have been concealed by the "scientific" and "idealized" nature of neoliberal economics, they cannot remain hidden forever (Huang Zongzhi, 2019, 2020).

Second, Marxism insists on the unity of theory and practice, a point that is significantly different from the reductionism of Western mainstream economics. The aforementioned problems in Western mainstream economic theories are rooted in their reductionism, which treats all market entities as homogeneous in order to facilitate the use of mathematical symbols and mathematical logic. This reductionism is rooted in the naturalistic thinking of Western society and derives from the principles of individualism and universalism. This kind of mainstream economics is committed to creating explanatory mathematical models and a rational-choice analytical framework, but it fails to identify and address real problems.

The universalism in neoclassical economics is related to the positive rationality derived from naturalistic thinking as well as social Darwinism and ethical naturalism, which in turn have generated a social philosophy centered on social harmony. In *Das Kapital*, Marx analyzed the class polarization caused by Western capitalism in its wealth creation process and expressed a strong moral concern that the working people should be treated fairly. Both of these aspects differ significantly from the concerns of Western mainstream economics.

Third, Marxism can be a corrective for the narrow vision of modern mainstream economics and act as a framework for a political-economic theory of "socialism with Chinese characteristics." Modern mainstream economics, as represented by neoclassical economics, treats the market as a part of the private sector, with the focus on individual choice or the allocation of scarce resources under certain institutional constraints. This is a rationalist method of analysis. A political-economic theory of socialism with Chinese characteristics must be fundamentally concerned with the public domain and make it clear that development and the vicissitudes of public affairs do not stem from individual rational choices, but rather from joint efforts by many parties. This point must be incorporated into any consideration of power and social justice, which further involves issues such as income distribution.

Marxist theory cuts to the core of the disconnect between appearance and essence as well as between ideas and reality. Thus, it can be used to analyze the market and reveal conflicts of interest among people and power relations in the market, which further exposes the unfair distribution of market income and underlines many important theoretical issues, such as how to introduce the positive functions of the state. It is essential to note that the state does not stand in opposition to the market. Additionally, the problem is not whether the state should play a role, but whether the role it plays is positive or negative (Huang Zongzhi, 2020).

Constructing a political-economic theory of socialism with Chinese characteristics requires in-depth research on the relationship between the state and the market, rather than merely emphasizing the logic of free market fundamentalism. Moreover, it requires a deep understanding of China's economic practices and accomplishments. Economic practice refers mainly to actual economic development and the operation of the economy. Explicating the two requires identifying the contradictions between actual economic practices and Western mainstream notions of how the economy operates. Practice alone, however, is not sufficient. There is also the need to use various tools of economic analysis and multidisciplinary theories in in-depth studies of economic operation mechanisms, integrating practice and theory. This will lead to a better understanding of China's economy, thus enabling the development of a theory in line with China's realities.

Philip Huang's studies of China's agricultural economy are a model in this regard. In turning to the concept of involution, Huang rejects neoclassical economics' linear thinking as well its unquestioned faith that marketization can solve all development problems. Huang has criticized equating marketization with development, ignoring the fundamental facts that constrain economic development, and paying little attention to social injustices that accompany economic development. Since the logic of practice in China differs from the logic emerging from Western mainstream theories, this calls for the construction of an interpretive theory with Chinese subjectivity. Huang developed the concept of involution not in the pursuit of a universal theory, but rather as an analytical concept that could bridge different schools of thought, bring to the fore the most fundamental facts of Chinese society, and promote the understanding of China's realities (Huang, 1985, 1990). The concept of involution is rooted in China's realities, and it has important theoretical implications that can positively influence theoretical innovations in the social sciences (Zhao, 2021).

Conclusion

Western mainstream economics relies mainly on deductive logic in building internally consistent theories, and at the same time oversimplifies complex economic practices. Most importantly, it has conjured up a series of dichotomous concepts such as the state and the market to interpret economic practices, thereby establishing a set of universal models of modernization. Neoclassical economics simply attributes China's economic miracle to market transformation while ignoring the important role of the state. Obviously, it is not easy to construct a political-economic theory with Chinese or other subjectivity. Although the local government competition model attaches considerable importance to the vital role of the state, the discourse it relies on is derived from Western mainstream theories. In essence, this shows that Western mainstream economics has been used to analyze not only the behavior of market entities but also the behavior of local governments, thereby expanding the logic of free market fundamentalism.

Constructing a political-economic theory in line with China's realities requires reflecting on the universality of dichotomous binary oppositions in Western modernization theories and conducting in-depth studies of the complex relationship between the state and the market, rather than focusing solely on the logic of free market fundamentalism. A political-economic theory of socialism with Chinese characteristics must recognize the unity of theory and practice, integrate research on productivity and the relations of production, thoroughly explain China's economic development, and pay close attention to social justice. Any in-depth study of China's economic practices requires recognizing the contradictions between the practices of China's modernization and Western mainstream theories. Through the use of various tools of economic analysis and multidisciplinary theories, foundational concepts for understanding China's economy can be constructed, making possible a realistic political-economic modernization theory which incorporates China's experience.

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