

On the Scientific Research Program of the Political Economy of Development with Chinese Characteristics

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China's miracle of economic development reflects wisdom of the political economy of development with Chinese characteristics. The logic is the organic combination of development economics and political economy, and the systematic combination of such political factors as political parties, state, governments, planning, policies and such economic factors as specialization and market. The scientific research program inherent is the combination of state capacity building and large-scale market creation: State capacity incubates and promotes the formation of large-scale market, and they both have helped form a miracle of economic development. The conceptual framework can be summarized as five major dimensions: the state, the government, the planning, the policy, and the market. In terms of the state dimension, the leadership of the Communist Party of China (CPC) has cultivated strong state capacity; in terms of the government dimension, the functions of the central government and local governments are synergistic and complementary; in terms of the planning dimension, development planning has well coordinated with the market mechanism; in terms of the policy dimension, selective industrial policies have gradually changed into functional and inclusive industrial policies, bringing dramatic transformation of industrial structure and upgrade of industries; in terms of the market dimension, the market has been more and more in the dominant position in the allocation of resources, contributing to the economic takeoff.

Keywords: state capacity, market creation, CPC, five-year plan, industrial policy, market mechanism

Introduction

China's development miracle needs to be explained conceptually into a systematic theory so as to provide enlightenment for other countries or economies and for China's own economic development in the future. Looking back historically, China's transformation from a poor and backward agricultural society to an industrial power contains the ingenuity of political economy of development with Chinese characteristics, which has its own logic, scientific research program and conceptual framework.

The Logic of the Political Economy of Development with Chinese Characteristics

China has pioneered its own pathways of economic development in the process of economic transformation. They include the pathway of transformation with Chinese characteristics from a traditional agricultural society

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into an industrialized one, the pathway of China's urbanization, the pathway of China's market economy with Chinese characteristics, etc. In the political economy of development with Chinese characteristics, the leadership of the Communist Party of China (CPC), the state, the government, development planning and policies constitute the political factors and specialization, market, enterprises etc., constitute the economic factors. Working together, they have created the miracle of China's development. The political factors have promoted specialization, division of labor, the flourishing of enterprises and the formation of a large-scale market in China. The large-scale market contributes to fast industrialization. Industrialization is pushed by a large-scale market while the latter has been created by state capacities. The large-scale market formed by state capacities contributed to the miracle of China's economic development.

The Scientific Research Program of the Political Economy of Development with Chinese Characteristics

The scientific research program of the political economy of development with Chinese characteristics is different from that of classical political economy mainly focusing on productive forces, from that of neoclassical economics focusing on resource allocation, and from that of institutional economics focusing mainly on institutions. It is a scientific research program of political economy of development combining state capacity enhancement and market creation, integrating classical political economy, neoclassical economics, and institutional economics, etc., on the basis of the Marxist approach of political economy.

The basic idea is that during the process of China's economic development over the past 40 years of reform and opening up, the strong and capable state and government capacity has promoted the formation of large-scale markets, and they both have contributed to miracles of China's economic development. That is, the level of industrialization and technological innovation is determined by the extent and scale of the market, and the scale of the market is realized by the state capacity. China's miracle of economic development follows the law of the synergy of national capacity and market creation. Thus, the scientific research program of the political economy of development with Chinese characteristics is a combination of the state capacity and large-scale market creation.

Rapid economic growth requires a huge market extent or scale. As long as the market scale is large enough, the purchasing power will be large enough. The huge purchasing power can make enterprises' fixed assets investment and other costs in the production process compensated. In this way, enterprises can be profitable. In other words, mass production can only effectively operate and make profits on the basis of large-scale market and sizable marketing network. This line of thinking is consistent with Adam Smith's principle of national wealth creation. That is, national wealth creation is based on division of labor and the level of specialization, which in turn is subject to the size or extent of the market. The development of the market is not only a problem of ownership and property rights structure, because if the market is too small, the scale of enterprise production and operation cannot be large enough to make profits.

Modern enterprises are the combination of large-scale production and large-scale market, and the emergence of modern large-scale enterprises is a reflection of the large market, without which there will be no large-scale modern enterprises. Therefore, the necessary condition for economic development is the increase of market size or extent. The enlargement of market extent stimulates division of labor and large-scale production. The large-scale production of one sector creates large-scale demand for products of other sectors, which eventually makes the whole society adopt large-scale production in all sectors within the entire production process. Large-scale

production provides huge demand for raw materials, intermediate products, various machines, energy power, communications, and various infrastructures. China has achieved market development and market size creation through a strong government and socialist state apparatus.

Large-scale production requires not only division of labor and specialization, but also a large organized transportation, commerce, credit system, and the corresponding infrastructure. And this support system in the process of China's economic development is created by state capacities. First, the large market created by the state's capacity has stimulated the commercialization of rural areas, increased the utilization of rural surplus labor, integrated scattered rural people into migrant workers for industrial development, incubated the mass production factory system, and cultivated entrepreneurship and skilled workers in the practice of learning by doing. Second, the rapid increase in productivity and manufacturing capacity prompted the central government and local governments to establish organized transportation, commerce, and credit systems to create ever larger domestic markets, to explore international markets to absorb mass-produced products and ensure the supply of raw materials. Third, the large-scale production triggered by the huge market created by the state has triggered a large-scale commodity marketing system, raw material supply system, and industrial network system, which has further accelerated large-scale production.

Thus, the scientific research program of the political economy of development with Chinese characteristics is a combination of state capacity and large-scale market creation.

Two major relationships should be properly handled within the scientific research program of the political economy of development with Chinese characteristics. First, the relationship between the state and the market. On the one hand, the market is the fundamental factor of China's resource allocation. On the other hand, the state provides institutional and environmental guarantees for the market, and the orderly operation of the market requires state management and supervision. Therefore, it is necessary to correctly handle the relationship between the state and the market, so that the role of the market and the role of the state complement each other. The second is the relationship between the government and enterprises. Enterprises are the main micro entities of the operation of the socialist market economy, and enterprises are engaged in production and business activities with profit as the goal. The government is the main body of macro-regulation, and its function is to regulate the total supply and demand of society, maintain the order of the market economy, and create a good environment for enterprises according to market requirements. It is needed to correctly handle the relationship between the two so that each performs its own duties and fulfills its responsibilities.

The Conceptual Framework of the Political Economy of Development with Chinese Characteristics

Conceptually, the political economy of development with Chinese characteristics is to make use of both political and economic factors to achieve economic development. In practice, it is to follow the logic of political economy, combining national capacity with the large-scale market, giving play to the role of the market in resource allocation, and giving play to the role of the state in promoting division of labor and specialization, so as to take advantage of both the market and the state. The conceptual framework includes the following major dimensions.

The state dimension: The leadership of the CPC has cultivated strong state capacity. The state, as superstructure, plays an important role in ensuring the strategic direction of economic development, and the state

power linked to market forces has an important impact on economic development. The market mechanism can play a decisive role in the allocation of resources, but the role of the market mechanism is premised on the state's rectification for market failure. The state plays an important role in ensuring macroeconomic stability, infrastructure construction, human resources development, major scientific and technological progress, economic restructuring and fair income distribution in economic development.

The CPC leads the country to establish the correct direction for national development and progress, and the CPC leads the country to mobilize the enthusiasm and creativity of all quarters through the principle of democratic centralism. The CPC forms a unified will, avoids fragmentation of national governance, and cultivates strong national or state capabilities. The achievements of China's economic development before the reform and opening up are the result of the planning and directive role of the state, and China's miracle of economic development after the reform and opening up is inseparable from a better role of the state and the decisive role of the market in the allocation of resources. The two different periods before and after the reform and opening up have reflected the strong leadership of the CPC and the cultivation of national capabilities. The leadership of the CPC has become the foundation of China's state authority and national governance. The state capacity cultivated under the leadership of the CPC is a necessary condition for economic growth, and the state capacity lays the institutional and infrastructure foundations for China's economic development. Successful economic development cannot be separated from the state capacity accumulated under the leadership of CPC.

State capacity refers to the ability of the state to exercise social control or governance in order to achieve its policy objectives. State capacity can guarantee good social order and management and appropriate response to external competition and challenges. State capacity is related to a country's capabilities for macro-control, social development, social vitality building, and defense against external security threats, etc. State capacities include strategic capabilities, market development capabilities, and resource mobilization capabilities and so on. The relationship between the CPC and the state with Chinese characteristics is the system of CPC leading the country, which is based on the combination of Marxist theory and China's national conditions. The leadership of the CPC is integrated into the national governance structure. China's state capacity comes from the successful leadership of the CPC, and the strong state capacity cultivated by the leadership of the CPC is an important reason for the success of China's development path. Therefore, it is necessary to adhere to and improve the CPC's leadership, and continuously improve the CPC's governance ability and its leadership capability. The leadership of the CPC is a significant advantage of China's socialist system with Chinese characteristics, and it provides fundamental institutional support for promoting the modernization of China's state governance.

The government dimension: China's central government and local governments have formed synergistic and complementary functions. The state is a political organization with a certain degree of sovereignty, and the government, as the organ exercising national sovereignty, is a constituent element of the state organization and a means to achieve the goals of the state. The government formulates economic and social development plans on behalf of the country to ensure stable economic development. The role of the government in economic development is reflected in strengthening macro-control, reducing economic fluctuations, improving the legal system, regulating the behavior of market entities, and providing public goods and services for social development. From the founding of the People's Republic of China, economic development has always been the responsibility of the government, and the development function of the government in China is mainly reflected in supporting market entities, cultivating markets, and promoting economic structure upgrading, innovation, and opening up.

The structure of the Chinese government is unique, and the central government and local governments have their own special roles in economic development. The relationship between China's central and local governments in the process of economic transition is worthy of detailed research. After the reform and opening up, in order to meet the requirements of the socialist market economy, China gradually formed an institutional model combining centralized power and local decentralization, in which the central government and local governments are synergistic and complementary in functions.

As China's central power of socio-economic, political, and cultural affairs, the central government represents the overall and long-term interests of the country, and undertakes such important functions as formulating national development strategies, maintaining unified market order, ensuring overall fairness and justice, and promoting economic development. In China's government system, local governments have a special status. They are an important part in the overall state management system, implementing the national planning strategies, guidelines, and policies formulated by the central government to promote the development of the national economy. They are also relatively independent entities with their own local special interests and development goals. In order to pursue local economic development, local governments lead provincial or prefectural economic operations by controlling local public financial resources, and actively seek various resources for investment to promote the economic development of the region. On the basis of adhering to the leading role of the central government, local decentralization in the economic field has been widely developed. The central government has delegated much power to local governments, and expanded the fiscal and taxation autonomy of local governments. Through the establishment of special economic zones, free trade zones, reform pilot zones, and so on, local governments have gained greater economic autonomy. Decentralization to local governments has changed the organizational structure, interest structure, and information structure within the hierarchy of governments, having formed a new type of relationship between the central and local governments. The new relationship has been adapted to the requirements of China's socialist market economy, has mobilized the enthusiasm of both the central government and local governments, and has improved the government's governance ability and the efficiency of regulation and control. Decentralization has provided stronger incentives to local governments and enhanced the initiative and enthusiasm of local governments in economic development. It has created a broad space for local governments to proceed from the actual conditions of each province, prefecture, or county, to boldly innovate and experiment, and to implement and pilot reasonable and effective reform policies and institutional mechanisms.

The planning dimension: Development planning and market mechanism have been organically integrated in China. As a strategic arrangement, development planning plays a very important role in economic management. Development planning is widely accepted as the safest and most direct shortcut to economic progress in economic development. Development planning is valued because it provides the essential, if not the only, institutional, and regulatory mechanisms for overcoming major obstacles to development and supporting sustained and high economic growth. A comprehensive development policy framework based on development planning plays a very important role in promoting economic growth and poverty reduction.

Formulating development plans has become a way of life for governments at different levels in China. Every five years or so, the latest development plans are formulated. China began formulating and implementing its first Five-Year Plan in 1953 and had completed a total of 14 Five-Year Plans by the end of 2021. Development planning plays an important role in promoting the formation of a complete and unified industrial system and national economic system, in ushering in scientific and technological progress, in coordinating regional

development, and in maintaining sustainable development in China. Due to the unsatisfactory implementation of the development plan before the reform and opening up, the debate between the plan and the market arose after the reform and opening up. In recent years, debates about markets and development planning have formed a new consensus that economic development must be based on markets, but it is necessary to realize that markets also fail in a lot of cases. Governments and their development planning programs have a broad and integrated role in providing a stable economic environment, infrastructure, public health, education and training, technology diffusion, in providing export incentives, in helping the private sector to reconcile failures, in reducing poverty and inequality, and in providing basic public goods such as rule of law. In response to these new consensuses, China have carried out a series of reforms in the new era, adjusted development planning, and actively promoted the organic combination of development planning and market mechanisms. First, the objectives and content of the development plan better conform to the principles of the socialist market economy, promote the role of the market, and clarify the functional positioning of the development plan under the conditions of the socialist market economy. Second, the development plan should lead the direction of development and the change of development pattern, enhance basic research and development, incubate innovation, and promote innovation-driven economic growth.

The policy dimension: In China, policies have constituted an important coordinating and guiding force for economic development. Policies are tools and means to implement the goals and tasks stipulated in the five-year plans of development. The theoreticality of policies is fundamental to achieving the expected results of development planning. As Arthur Lewis pointed out, “the secret of successful development planning lies in theoretical development policies and good public administration”. Industrial policies are a key aspect of effective development planning.

Industrial policy is the general term of governments’ policy to guide industrial development and it is an important part of public policy. Industrial policy is closely related to the stage of economic development. The role, characteristics, and tasks of policies are different in different stages of economic development. Among the various types of industrial policies, the function of selective industrial policies is to support strategic emerging industries, accelerate the process of upgrading the industrial structure, and further achieve the goal of catching up. The goal of functional industrial policies is to promote technological progress, industrial innovation, product innovation, and human capital investment through strengthening infrastructure construction, creating an efficient market environment, and giving play to the role of market mechanisms. Inclusive industrial policies refer to public policies that benefit people’s livelihood and they can bring benefits to the public.

In the early stage of reform and opening up, China mainly focused on selective industrial policies, which enabled China to play an active role in getting rid of constraints in the infrastructure field, cultivating leading industries, and promoting industrial structure upgrading.

As China’s economy shifts to a stage of high-quality development and the industrial structure gradually moves towards the middle and high end of the global value chain, it is more difficult to select or choose industrial and technological paths. The direction of China’s industrial policy has changed from selective industrial policy to functional and inclusive industrial policies, aiming at enhancing fair competition policy and creating an equitable business environment of fair competition. Through reducing selective industrial policies and expanding functional and inclusive industrial policies, entrepreneurs are provided more space in choosing industries, technological paths, and business models. The switch indicates China’s determination to further reform and opening up in letting the market mechanism fundamentally make industrial choices. It also reflects the

improvement of functions of the state and governments as the visible hand. The substantive change of China's industrial policies from selective to functional and inclusive has promoted industries from extensive growth to intensive growth and high quality development.

The market dimension: Market economy is an economic system that guides the allocation of resources through market mechanisms. The salient feature of the market economy is that the market plays a decisive role in the allocation of resources according to market rules, market prices, and market competition to maximize benefits and optimize efficiency.

From the 14th national congress to the 18th national congress of the CPC, China's understanding of the role of the market in resource allocation has been deepening. The understanding went through great changes, from "the market should play a fundamental role in resource allocation under the state's macro-control", to "give greater play to the basic role of the market in resource allocation", to "better play the basic role of the market in resource allocation from the institutional perspective", to "give play to the basic role of the market in resource allocation to a greater extent and on a wider scale", to "making the market play a decisive role in the allocation of resources", revealing the essential requirements of the socialist market economy, and is a new major breakthrough in theory. The deepening of understanding of the role of market in resource allocation accelerated China's process of reform and opening up.

The so-called "decisive role" means that the market is in the dominant position in the allocation of resources in all social production fields, and has the direct right to determine commodity prices in production, circulation, consumption, and other links. "Decisive" means that no force can be higher than or even substitute for the role of the market. The mechanism by which the market determines the allocation of resources mainly includes the price mechanism, the supply and demand mechanism, the competition mechanism, and the incentive and constraint mechanism. Its role is mainly embodied in the fact that it is profit-oriented to guide the flow of production factors, use competition as a means to determine commodity prices, and use price as a lever to regulate supply and demand, so that the aggregate supply and demand reach an overall balance, and the price of production factors, the investment direction of production factors, product consumption, profit realization, and income distribution mainly rely on market exchange. Practice has proved that so far, under the conditions of a market economy, no force has been found to be more extensive, efficient, and sustainable than the role of the market. Therefore, as long as the market economy system is implemented, the main position and decisive role of the market in the allocation of resources must be respected, and no other force can replace the role of the market.

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