

Can East Asian Philosophy Help the World to Avoid Disruption? (Part 1) – Lessons from Deng Xiaoping’s “Socialist Market Economy”



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Introduction

What was the “socialist market economy” advocated by China’s leader Deng Xiaoping in 1992? He made a famous speech in Shenzhen in southern China in February 1992, highlighting that national economic planning also exists under capitalism with a market economy and that a market economy could exist under socialism. Based on this thought, the Chinese Communist Party (CCP) officially adopted China’s economic policy goal at its 14th National Convention in the autumn of 1992. Since then, China, a socialist superpower with nearly 1.2 billion people, has been on a high economic growth track, marking a significant distinction from Russia and East European former socialist nations that fell into chaotic and stagnant economic situations with the collapse of socialism and transition to a market economy.

What then, in essence, is a “socialist market economy”? In general, a market economy means a “free market” economy and “socialism” means a “planned” economy. Thus, a “socialist market economy” is not logical. It is often referred to as a political economic system mixing Communist Party dictatorship and a capitalist economy, which appears to be logically inconsistent. However, no one has ever clearly analyzed the specific nature of this system based on the facts. The argument that this is logically inconsistent is only theoretical, namely in the light of Western philosophy that often emphasizes dualism in thoughts and ideologies.

This essay tries to examine the nature and role of a “socialist market economy” in the light of East Asian philosophy, providing a holistic approach beyond dualistic values such as socialism or capitalism.

Western Philosophy & East Asian Philosophy

I think there is a fundamental difference between Western and Eastern thought in understanding the world and living life. Logical thinking is a distinguishing characteristic of Western thought and is based on logic represented by mathematics. Western people try to elucidate the truth of the world through words. They distinguish between subject and object, decomposing the world into elements in pursuit of the truth. It is a view that perceives everything other than oneself as an “object”. Like Christianity, the beginning and end of the world are clearly marked, and the world is viewed in a linear way.

While Western thought is characterized by philosophy as a “discipline”, Eastern thought is characterized by philosophy as a

“teaching”. In Eastern thought, emphasis is placed on life practices such as “how to live” and “how to learn” rather than logic. It is a way of thinking that does not separate the subject and the object, but seeks the truth within the subject. In Buddhism and Lao Zhuang thought, “self” and “world” are not distinguished but are regarded as one big thing. When Easterners want to know something, they think of it as a whole rather than a part and think of coexistence and co-prosperity rather than conflict. Just as there is day because there is night, they have a perspective that recognizes each other in the whole. Like Buddhist reincarnation, there is no concept of beginning and end; it perceives the world in a circular way. There is also the concept of “causality”, which states that actions in previous lives affect future lives.

Western philosophy is likened to a “staircase” where logic is piled up in search of the ultimate truth. On the other hand, Eastern philosophy is sometimes described as like a “pyramid” in which a person intuitively arrives at the truth one day and this truth is passed on to later generations as a lesson. East Asian philosophy is in total a collection of all the thoughts and philosophies of the region east of Europe, and mainly in Asia. It consists of a wide range of thoughts such as Confucianism, Buddhism, Taoism, Zen, and Shintoism.

According to East Asian philosophy, anything has a reason to exist and anything has a good aspect. Its core is a golden mean by which one must have balanced thinking towards anything. Nothing is extremely good, while nothing is extremely bad. Therefore, we should be neutral in judgements, while the dualism in Western philosophy is likely to differentiate between the “good” and the “bad”.

East Asian Philosophy & a Socialist Market Economy

The ancient Chinese philosopher Zhuangzi said that making a distinction between the good and the bad could lead to senseless arguments and this should be abandoned as the wrong way of thinking. He also emphasized the equality of all kinds of phenomena and views, and said the world should be taken as a whole without any conflict or discrimination. This could be an important view regarding diversity in our modern society.

I would like to give an analysis of China’s socialist market economy in the light of East Asian philosophy, avoiding dualistic value judgements and emphasizing the importance of diversity and fusion of all kinds of thoughts and values. The following are

characteristics of China's socialist market economy – fusion, flexibility and transience.

1. Fusion

Fusion means mingling among many different organizations or ingredients. This creates a new holistic function by mutual dependency and mutual recognition among those different factors. The fusion of a socialist market economy is mainly represented by the co-existence and mixture of conflicting concepts of the existing socialist economy and a capitalist economy, diversified ownership, and distribution of earned and unearned income.

a. Fusion of Conflicting Values

In China in the past, the concepts of socialism and capitalism were different and contradictory. This is because socialism depends upon a planned economy whereas a market economy is categorized under capitalism, and thus once a market economy is introduced in China it would be capitalism. So the idea of the introduction of a market economy in China was condemned in China as a theoretical base for turning the Chinese economy into capitalism. However, a socialist market economy is to introduce the market economy as practiced in capitalism into China under Communist Party leadership, keeping the socialist system as it is. This idea is to create a fusion of socialism and capitalism, without forcing Chinese people or society to choose either of them.

b. Fusion of Ownership

Ownership or business management in China before 1992 consisted of national ownership and group ownership by local governments, township companies and collective ones, all of a centralized nature. This was integrated public ownership and only a few private and individually owned companies existed, since the Chinese government restricted private companies, depending on the political situation, instead of promoting them. Therefore, private companies were limited to the distribution and service sectors. After the 1990s, under a socialist market economy, a wide range of ownership has been promoted. There are now eight kinds of ownership now – national, collective, private, individual, association, shareholder, and Hong Kong, Macau and Taiwan invested and foreign subsidiaries.

With the separation of ownership from management, companies can be vitalized to raise their productivity and under any kind of ownership, public or private, they now compete against each other on an equal footing in a shared market and social environment brought about by policies and regulations. In addition, there are

some public elements among some private companies, such as with dispatched public officials to provide public guidance, alliances with national companies, a certain percentage of shareholding by national enterprises, and the rent or sale of part of a national company to private or individual businesses.

This is how public and private businesses cooperate and mingle with each other, pursuing a fusion of different elements of business in the realization of a socialist market economy.

c. Fusion of Income Distribution System

In Communist China, income was distributed among the people in accordance with their labor and the income of non-labor was limited, since it was considered exploitation under capitalism. However, in socialist capitalism, the distribution system has been turned into one in which, with distribution by labor as a base, cares for efficiency and equity by compensated non-labor income distribution, such as earnings from securities or real estate. Socialist capitalism, while it encourages efficiency and rationalizes income gaps by inspiring model workers, tries to achieve a wealthy state gradually. It aims to realize both market efficiency and social equity at the same time.

2. Transience

Transience means the progressiveness of a phenomenon that does not belong to any of the two systems, socialist or capitalist. It has the connotation of a system “in the process” from an existing one to a new one and that has not been established yet.

Socialist capitalism is not independent either from a planned economy or from a free and mature market economy, but a mixture of the two. It is also a conjunction between the political dictatorship often observed in a planned economy and the multipolar political system of a free market economy. It is the step in transition from a socialist economy to a mature free market economy. In this transient economy, the capacity of production is adjusting to a new, more expansionary system of production.

This transience is also to be observed in the ownership and distribution system. Ownership has been diversified into the eight kinds mentioned above, with the promotion of private ownership of the means of production. In addition, fully nationalize enterprises are partly privatized and their productivity is encouraged to rise by separating ownership from management. The elimination of limitations on non-labor income distribution encourages people to be engaged in economic activity.

China's socialist capitalism system has a more transient nature than Russian or East European direct liberalization policies. For example, while 70% of industrial production in China was subject to

market pricing early in the 1990s, by the late 1990s the government was planning gradually to transform its controlled pricing into market pricing. Thus, China was successful with this progressive and transient price system transformation by avoiding the destructive impact of market-influenced price liberalization.

3. Flexibility

Flexibility means the agility to adjust to diversified and complex changes in the economic environment without being bound by rigid preoccupations or orders. Another characteristic of socialist capitalism is the less clear distinction among policy concepts, and thus it is not limited to a simple orderly framework.

Socialist capitalism should be considered as a system with diversity. With this diversity, a multi-faceted heterogeneous socialist capitalism system is now emerging, replacing a single-facet social economic system. This has brought flexibility to China's economic system. I believe this is proved by two issues – the decentralization of the administration and a changed corporate authority.

First, decentralization. In the planned economic system in Communist China, it was the centralized homogeneous economic system that ruled over decision-making on allocation of resources. A single designated plan by vertically integrated central government administrations worked in this system. So there was no effective resources allocation for local regions with care for their specific economic and social environments, and their economic development was limited. Local diversity was ignored. But under socialist capitalism, a more flexible and diversified economic system has been created and discretionary power over production, distribution and consumption has been transferred from the central government to local governments. With this, it has become possible to meet the needs of local economies in a flexible manner.

Second, on the changed corporate authority of national enterprises, this is reflected in (a) the separation of the CCP's political authority and corporate management authority, and (b) expanded corporate autonomy.

(a) *The separation of the Communist Party's political authority and corporate management authority of national enterprises.* Under the socialist planned economic system, the CCP alone controlled all organizational units ranging from central ones to local ones all over China. All the administration units and enterprises were faithful practitioners of the CCP's decisions. For long time, the CCP was the ultimate decision maker for enterprises as well as their supervisor. Those enterprises activities were not the result of decisions based on full-fledged market mechanisms. In the middle of the 1980s, as reform was underway in China, a corporate responsibility system

was introduced but each management decision was taken under the CCP's supervision. So management was not yet independent. But under socialist capitalism, with the separation of an enterprise's ownership and management, CCP influence over management has gone and its supervisory function has been weakened. Since the 1990s, the CCP has been limited to providing assistance to management, and thus management's corporate authority has expanded.

(b) *Expanded corporate autonomy.* Needless to say, it is important for a company to pursue its own business strategy under a market mechanism as a production unit of the whole society and also a responsible unit for innovation. But under China's planned economy, corporate autonomy was not realized, but was treated as part of the central administration. Such an organization evidently lacks incentives for innovative management and flexible reactions to changing business environments. This leads to a lack of motivation for R&D. In the current economic system, with the separation of the ownership and management of a company, many large national enterprises are in transition to a market economy from a planned economy. To achieve realization, since 1992 the Chinese government has given 14 autonomies to business firms, namely: clearance and managerial decision-making; product and service pricing; product sales; purchase of goods and materials; investment decision-making; disposal of retained funds; disposal of assets; alliances/absorptions/mergers; employment; personnel management; bonus and prizes distribution; disposal of intra-firm organizations; exports and imports; and rejection of burden assignments. A company can also adopt any of the three corporate management systems – subcontractor, leasing management and limited company. Small national enterprises can be sold to a group or an individual and thus be owned by them. Companies are thus at the moment in China free from government plans and orders, and can respond to changes in complex business environments autonomously in a flexible manner.

Conclusion: the Light & Shadow of the Chinese Economy

This socialist capitalism has been driving privatization and price liberalization. With this, FDI in and out has rapidly increased. China was successful in joining the WTO in 2002 as it had been expecting and achieved around 10% economic growth from 1992 until the beginning of the 2010s with its entry into globalization. In 2010, it became the second-largest economy in the world. It had more than 10 million private companies at the beginning of the 2010s. Their value-added exceeded 60% of GDP and their increased industrial

production was more than 15%, greater than that of national companies' 6.4%.

It is now private firms in China driving the economy. They account for more than 50% of national tax revenues, 60% of GDP, 70% of innovation, 80% of employment and 90% of all firms. In particular, as the main players in innovation, their patent applications and effective patents have reached nearly 80% of the total.

It has been said recently that the stagnation of China's economy today is due to excessive production and a shortage of domestic demand. But I believe the declining functions of socialist capitalism invented by Deng Xiaoping is the main reason. The current Chinese administration has now strengthened the leading role of national companies and the CCP's role in management, restricting private companies' activities over concerns about weakened national companies as the base of a socialist administration.

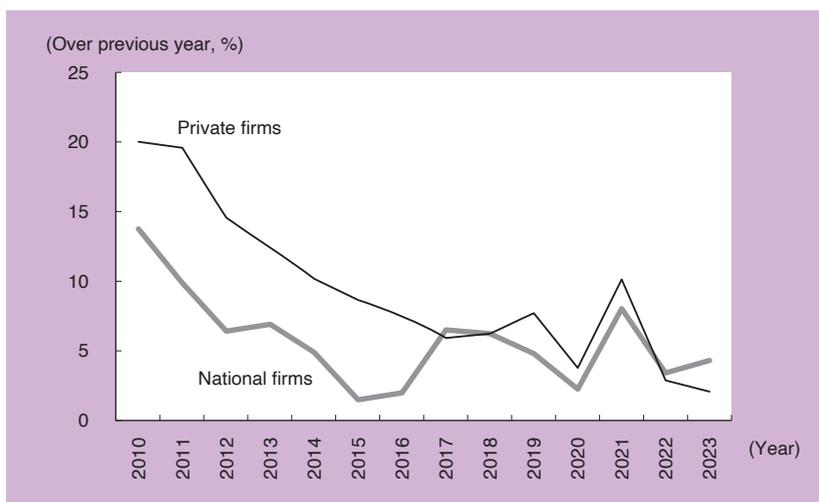
It has been noted today that private companies are falling into stagnation against the backdrop of strengthened regulation and a business recession. Private investment in January-July in 2023 declined over the previous year, and in industrial sectors the status of national companies and private companies was reversed in the rate of value-added or profits (Charts 1 & 2). The government's restrictions on large private IT companies has had a negative impact on business activity as well.

However, national companies' inefficiency matters. The proportion of national manufacturing companies with deficits reached 24.5% at the end of 2022, higher than in the case of private firms at 18.5%. The most urgent matter for China from now on is to improve the original functions of socialist capitalism – fusion, flexibility and transience – and accommodate a long-term business environment in favor of private business innovation.

Article translated from the original Japanese by Naoyuki Haraoka, editor-in-chief of Japan SPOTLIGHT & executive managing director of the Japan Economic Foundation (JEF).

CHART 1

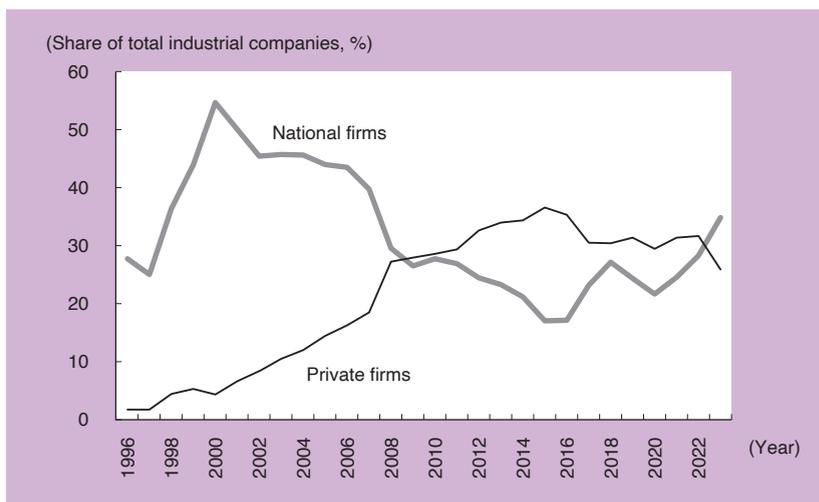
Rate of increase in value-added



Source: RIETI

CHART 2

Profits



Source: RIETI

Dr. Guo Sizhi is specially appointed professor at Teikyo University Okinaga Research Institute, and consulting fellow at the Japan Economic Foundation (JFE). He specializes in the international economy, the energy economy, and the Chinese economy. His current research focuses on the transformation of the international political and economic order, new energy, and economic security toward carbon neutrality, and decarbonization technology innovation. He is the author of numerous books, including *A History of the Industrial Revolution: The Transition of the International Order as Seen Through Innovation* and *The Decarbonizing Industrial Revolution*.

