

The Chinese Economic Model Revisited: Any Implications for the New Economic Thinking?(Draft)¹

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1. Introduction

The president of INET, Johnson(2013) emphasized the importance of Asian tradition for building up the New Economic Thinking. “It is my sense that the Asian tradition of thought and philosophical perspective are better suited to embracing this radical uncertainty and living in the experimentation of the adaptive complex system that our world appears to resemble than are the Western mindsets that are the product of the Cartesian Enlightenment.” In the summary he argues that “As the Asian societies continue to evolve the architects will be better served by a new economics for Asia and from Asia that is based on the notions of radical uncertainty, complex adaptive systems, mimetic desire, the inseparability of politics and economics, and a vision of a world where policy makers are themselves less knowing and less capable of control than we often yearn to believe is within their power.” The theme of Toronto 2014 Conference is “Human After All”. Even though the theme of my session is “Economic Progress and Financial Reform in China”, I want to focus rather on the theme of the whole conference and the more fundamental issues. Under this background of the motivation of writing the paper, this paper tries to answer the following questions regarding the Chinese Economic Model (CEM).

- What is the CEM?
- Is there any relationship between the CEM and the Chinese and Asian Traditional Thoughts (CATT) ?
- Are there any implications of the CEM and CATT for the New Economic Thinking (NET)?

Ch. 2. tries to briefly summarize the arguments surrounding the CEM. Ch. 3 introduces and summarizes the CATT focusing on Confucianism and the Legalists, and the relationship between the CEM and the CATT Ch. 4 derives some implications of CEM and CATT for the NET.

2. The Chinese Economic Model

Chen(2012) made an attempt to redefine Beijing Consensus(BC) as an economic development model based on the Chinese experience since its implementation of policy reforms in 1979. He called this model the Chinese Economic Model (CEM). According to him, unlike the Washington Consensus (WC), the CEM is not just a list of policy guidelines but puts great emphasis on the actions taken to implement the policies. “The policy reforms in the CEM are not novel, but their implementation is laudable. In the CEM, policy reforms are undertaken (1) in accordance with a well-planned sequencing, (2) with a incremental/gradual/evolutionary approach, in contrast to the ‘shock’ or ‘big bang’ approach of Russia, the CIS and East European countries, and (3) on the basis of an experimental approach with pilot projects tested before nation-wide applications – ‘crossing the river by groping the stones’. A good policy could produce very bad results if it is implemented at the wrong time and in the inappropriate pace. Unlike Ramo (2004)’s BC, the CEM is about economics and the mechanics of economic development with only little reference to politics and security.”

He described the CEM as follows: (Chen, 2012, pp. 30-31)

1. A country for economic development should at the beginning adopt an outward-looking and export-oriented strategy. This is indeed what the World Bank has been advocating for decades.²

¹ This is a draft version. Do not quote without permission of the author.

2. Different from the World Bank prescriptions, the CEM demonstrates that the timing, speed and sequencing of reforms are crucial in ensuring success. In implementing export-oriented strategy, the first step is (1) to establish some carefully selected special economic/free trade/industrial/export processing zones along the east coast as starting and experimental projects with strong and dedicated central government support to set examples for other regions/zones in due course, implying a sequence of opening up the coastal regions before the inland regions, (2) to introduce exchange rates reforms for export competitiveness in the form of a one-off devaluation under a managed fixed exchange rate regime; this is in contrast to the WC of introducing a flexible exchange rate system the soonest possible, (3) liberalization of foreign exchange control has to be gradual and in the right sequence, liberalization of the trade account long before the capital account, (4) gradual liberalization of inward foreign direct investment in selected regions (mostly in the special economic zones) and selected sectors, in contrast to the WC of a cross-the-board liberalization for avoiding resources allocation distortions.
3. Rural reforms are undertaken before urban reforms. The first step in improving the utilization of resources is to change the incentive system in agriculture. The household responsibility system is implemented step by step, resulting in drastic increases in agricultural output and its share in GDP. Rural industrialization of setting up township and village enterprises (TVEs) plays an important part in absorbing the agricultural labor released, in aligning industrial production to China's comparative advantage, and in providing capital for further agricultural development.
4. Urban reforms start with state-owned industrial enterprise reform, giving enterprises greater autonomy and paving ways for a market economy. While the central government continues to play a vital role in allocating resources, local governments are also given a greater say on industrialization directions. Privatization and the development of private sector business are only undertaken at a later stage using a step-by-step approach. The idea of allowing some people to get rich first is accepted; a bigger pie should be created before the consideration of how the pie should be divided.
5. A very prudent approach to reforms in the financial sector is adopted. Liberalization of financial services is very gradual in terms of interest rate deregulation, foreign ownership, and foreign operation in RMB businesses. Similarly, the privatization of state-owned financial institutions is gradual and prudent. The development of the capital markets should also be gradual. Derivatives and futures markets should only be developed long after the sound operation of the spot markets.

The controversies about the CEM initially started as the transition policies between 'big-bang' approach or the Washington consensus on one hand and gradual or evolutionary approach on the other.(Park, 2013) Until the mid 90s, Asian economic model had been evaluated as a kind of successful development model. However, since the Asian financial crisis in 1997-98, Asian economic model or Asian capitalism was then blamed for its cronyism, corruption, patron-client exchanges, rent-seeking activities, and macroeconomic mismanagement. The 2008-09 global financial crisis became a turning point. Since then, "many were talking about the end of American capitalism. There was in the US, probably for the first time, diminishing public support for the American system. There were severe criticisms on the over-developed financial sectors and predominance of a few financial giants undermining the spirit of American capitalism. On the other hand, China did not seem to

² This strategy is not unique to China, learned from Japan, NIEs like South Korea

have been affected by the global financial crisis at all; growth and development continued. Moreover, East Asia in general and China in particular has played an important part as the growth engines for economic recovery from the global recession. There is no question that after the rise and fall of Asian capitalism, we now witness the resurgence of Asian capitalism.”(Chen, 2012, pp. 27-28)

The main elements of the CEM are summarized as pragmatism (or gradualism, experimentalism), and the catch-up strategy based on the strong role for guidance of the government. Until recently the Chinese economy showed very successful performance using the CEM. But, now, a new model is necessary because there are no more advanced models to catch up.

3. The Chinese and Asian Traditional Thoughts and the relationship with the CEM

We know that there are two representative schools of the ancient Confucianism. They are Mencius(孟子) and Hsun Tzu(荀子). Mencius tended to emphasize Confucius’s virtue, whereas Hsun Tzu emphasized his leaning.

“Hsun Tzu’s attack on Mencius, then, was prompted because the viewpoints and temperaments of the two men fundamentally differed, so that among the Confucians of the Warring States period we find a conflict between the schools of Mencius and Hsun Tzu, just as among the Sung and Ming Neo-Confucianists we find one between the school of Ch’eng I(1033-1107) and Chu His (1130- 1200) on the one hand, and that of Lu Chiu-yuan (1139 -1192) and Wang Yang-ming (1473 – 1529) on the other.” (Fung, 1952, p. 281).

The second different point between two is the concept of Heaven. “When Confucius spoke of Heaven, he meant a ruling or personal heaven. The heaven of Mencius was at times personal, at times fatalistic, and at times ethical. Hsun Tzu’s heaven is naturalistic, a point in which he seems to have been influenced by the Lao-tzu and by Chuang Tzu.” (Fung, p. 284).

Thus if a person neglects what man can do and think about heaven, he fails to understand the nature of things(Hsun Tzu)

Another different point is related to the human nature. “Mencius says that man differs from the beasts inasmuch as he has the beginnings of goodness within him, such as a mind which distinguishes between right and wrong. Hsun Tzu, on the other hand, says that man differs from the beasts in having superior and more varied intellectual capacities. Thus we see that his doctrine of the evilness of human nature is in fact quite at variance with Mencius’s doctrine that human nature is good. (Fung, p. 288)

From this perception of human nature Hsun Tzu emphasizes desires similarly to the utilitarianism.

“According to the psychology of Hsun Tzu, there not only exist desires which seek for, and must receive satisfaction, but also a mind capable of thought and knowledge. This mind sets up a ‘standard’(ch’ian 權) or ‘balance’ (heng 衡), with which to place a restraint upon the desires, so that it may, in the words of the Later Mohists, and marks another difference between him and Mencius. (Fung, pp. 291-292)”

Another element of Hsun Tzu’s economics is social distinctions which is reminiscent of division of labor. “The accomplishment of a hundred workmen goes to support a single individual. Yet an able man cannot be skilled in more than one line, and one man cannot hold two offices simultaneously. If people all live alone and do not serve one another, there will be poverty. If they live together, but are without social distinctions (fen, 分), there will be strife. Poverty is a misfortune and strife is a calamity. To rescue people from misfortune and eliminate calamity, there is nothing like making social distinctions clear and forming a social organization.” (Hsun Tzu, pp. 151-153)

Hsun Tzu’s thought was a basis of the Legalists in the period of the ‘Hundred Schools’. “Hence there is no way of human living which does not have its distinctions (pien 辨); no distinctions are greater than those of social distinctions (fen); no social distinctions are greater than the rules of proper conduct (li, 禮); there are no rules of proper conduct than the Sage-kings” (Hsun Tzu, pp. 71-72). “This passage tries to prove the necessity for the li

by saying that it is these that make man truly man. In this respect Hsun Tzu agrees with Mencius, but he differed once more when he says of man: 'he likes what is beneficial and dislikes what is injurious: man has these ways of acting from birth'" (Fung, p. 297).

Fung(1952) explains the background of the rise of the Legalists as follows. "The collapse of the feudal system during the Ch'un Ch'iu and Warring States periods resulted, on the one hand, in the emancipation of the common people from their immediate overlords, and on the other, in the concentration of power in the hands of the state rulers. The great political tendency of the time was a movement from feudal rule toward a government by rulers possessing absolute power; from government by customary morality (li), and by individuals, to government by law. (Fung, p. 312)."

One of the representative legalists, Han Fei Tzu describes this situation as follows " Thus in the highest antiquity, people loved their relatives and were fond of what was their own; in the middle antiquity, they honored talent and delighted in moral virtue; and in later days, they prized noble rank and respected office. "(The Book of Lord Shang, pp. 225-227)³

The Kuan-tzu(管子) (ch. 45)⁴ states: ' When ruler and minister, superior and inferior, noble and humble all obey the law, this is called having Great Good Government'.

Fung(1952, p. 322) explains as follows: "The highest ideal of the Legalist school is that 'ruler and minister, superior and inferior, noble and humble all obey the law'. This will result in 'Great Good Government', and is an ideal which has never yet been actually attained in China." In this sense, the ideal of the Legalist school is the rule of law which is the ideal of modern democratic society.

Most of the Legalists believed that man's nature is evil, and Han Fei Tzu, as the disciple of Hsun Tzu, is especially clear on this point. (Fung, p. 327)

"Yet their hearts are centered on utility, and they both harbor the idea of serving themselves. Therefore in the conduct of human affairs, if one has a mind to do benefit, it will be easy to remain harmonious even with a native of Yueh. But if one has a mind do harm, even father and son will become separated and feel enmity toward one another" (Han-fei-tzu, pp. 638-639)

In economics, Han Fei Tzu holds that since all men act in their own interests, it is better to leave them alone in free competition. Therefore he opposes the Confucian doctrine of the equal division of land. (Fung, p. 328)

"Now for the superior to collect from the rich man so as to distribute to the poor home, is to take from the industrious and the economical and give to the wasteful and the lazy. To wish thus to lead the people to increased activity and frugality is impossible" (Han-fei-tzu, p. 1089).

In this respect, the Legalist economic idea is very close to the modern market oriented economics emphasizing competition and self-interests rather than cooperation and altruism.

³ Fung(1953) explains this development in more detail. "Though this division into three ages may be anthropologically and sociologically incorrect, it holds true to some extent when applied to the Ch'un Ch'iu and Warring States periods. The early part of the Ch'un Ch'iu period was an aristocratic age, in which everything was the possession of the ruling family. It was an age in which the aristocracy 'loved their relatives and were fond of what was their own.' Later, when the common people gained more power, Confucians and Mohists both advocated the 'exalting of the virtuous and employment of the capable', and 'showing a comprehensive love to all men and allying with the good' (Lun Yu, I, 6). This was a time in which people 'honored talent and delighted in moral virtue'.---Thus the latter years of the Warring States period were a time in which the people 'prized noble rank and respected office'. The establishment of absolute rulers, the consequent relegation of the talented to unemployment, came as a reaction to the evils inherent in the preceding period of honoring the talented. This tendency toward the concentration of power was the basis upon which the government of the latter part of the Warring States period rested." (Fung, p. 316)

⁴ The Kuan-tzu could be regarded as the oldest economics text book in Asia. It deals with even the price control and the monetary policy.

Confucianism and the Legalists advocate the state intervention and the anti-commercialism. In this context the element of the strong state intervention of the CEM rooted in this kind of traditional thought rather than simply the legacies of Chinese socialism.⁵ The CEM is very close to Hsun Tzu and Legalists in terms of fundamental economic perspective. All they share state intervention, the law and human interests. We may say that since Han dynasty up to now the ideas of Hsun Tzu and Legalists dominated the real politics and economy in China. On the other hand, the ideas of Mencius emphasizing the power of ordinary people and ethics rather than the power of ruler and law dominated the politics and economy in Korea.

4. Implications for the New Economic Thinking

Among the meaningful elements of The CEM to the NET is pragmatism. The NET should be new and flexible without attaching a theory or a thought or a school. In that sense it is related to pragmatism. In a sense all economic thoughts are based on pragmatism to a certain degree. From that sense, pragmatism is not that new economic thinking. Pragmatism has a root in Confucianism. “But, as philosopher Hajime Nakamura notes, the Chinese advances reflected a genius for practicality, not a penchant for scientific theory and investigation. And as philosopher and sinologist Donald Munro has written, ‘ In Confucianism there was no thought of knowing that did not entail some consequences for action.’”(Nisbett, p. 8)

Professor David Colander of Middlebury in Vermont is famous for invoking a lofty analogy of twin peaks image. It says that macroeconomists had clawed their way up a mountain, only to discover, when they broke through the clouds that a neighboring mountain would have taken them higher. Witnessing these intellectual new movements in the West such as INET, Asian peoples could feel that they have to tackle two formidable tasks. One is to learn the accumulated knowledge of Western economics. The second is to try to produce a new economic thinking suitable to Asia which seems to be much harder than the first one. However, Asians do not have to lose a lot of altitude compared to Westerns. In that sense they are easier to tackle questions in a fresh way.

Park(2011) suggested a new framework of economic thinking for imaging a future economic system or paradigm of an Asian community should be based on the efforts of finding wisdom from common legacies of human being from Asia and the West as well as from the past and the present.

In the context of criticizing the main stream economics, Buchanan suggests an argument of constitutional economics as follows.

We must redesign our rules, and our thinking about rules, with the ultimate aim of limiting the harm that governments can do, while preserving the range of beneficial governmental-collective activities. We plead with our fellow academicians to cease their proffering of advice to this or that government or politician in office. Good games depend on good rules more than they depend on good players. Fortunately for us all, and provided that we understand the reason of rules in the first place, it is always easier to secure agreement on a set of rules than to secure agreement on who is or is not our favorite player (Brennan, Geoffrey and James M. Buchanan, 1985).

It could be easily agreeable that we need a set of rules and good games depend on good rules more than they depend on good players. However, problem happens when there emerges the need to change the existing rules. In that case we need wise men who can fix the rules according to the virtue of objectivity, sincerity and honesty. In the Confucian tradition, these wise men are the gentlemen(君子) contrary to the little men(小人).

The Master said, The gentleman is harmonious but not conformist. The little man is conformist but not harmonious. (Confucius, Analects, Ch. 13)

⁵ The fundamental importance of the roles of the state are emphasized by Polani(1944) and Kojin(2010)

The Legalists argues as follows. “In his rule of a state, the Sage does not depend on men doing good of themselves, but makes it so that they can do no wrong. Within the frontiers of a state, there are no more than ten people who do good themselves, whereas if one makes it so that the people can do no wrong, the entire state can be kept peaceful. He who rules a country makes use of the majority and neglects the few, and so does not concern himself with virtue but with law. (Han-fei-tzu, pp. 1097-98)

“When the feudal system began to crumble, however, the power of the state rulers became on the other hand, greater and more centralized, while on the other hand the common people gained more independence from their immediate overlords. Thus, as the sphere of the state expanded, and its organization became more and more complex, the former close man-to-man relationship became wilder and looser. As a consequence, difficulties automatically arose to hinder the attempt to continue government upon a personal basis, so that one after another, various states of the time promulgated law codes.”(Fung, p. 313)

Therefore, the gentlemen will revise the rules from the harmonious perspective for the little men who are conformist rather than harmonious. To Summarize, we may say that ethics is needed for the gentlemen while rules(or laws) are needed for the little men.

In other words, we need a harmony of Mencius emphasizing the roles of the gentlemen and Hsun Tzu emphasizing the roles of the little men.

Our common sense is that the best way to motivate is with rewards like money-the carrot-and-stick approach. That's a mistake, says Daniel H. Pink(2001) in his provocative and persuasive book. He asserts that the secret to high performance and satisfaction-at work, at school, and at home-is the deeply human need to direct our own lives, to learn and create new things, and to do better by ourselves and our world. He suggests two types of behavior. “Type X behavior is fueled more by extrinsic desires than intrinsic ones. It concerns itself less with the inherent satisfaction of an activity and more with the external rewards to which that activity leads. The Motivation 3.0 operating system – the upgrade that’s needed to meet the new realities of how we organize, think about, and do what we do- depends on what I call Type I behavior. Type I behavior is fueled more by intrinsic desires than extrinsic ones. It concerns itself less with the external rewards to which an activity leads and more with the inherent satisfaction of the activity itself. At the center of type X behavior is the second drive. At the center of Type I behavior is the third drive. “(Pink, 2001, p. 75) He examines the three elements of true motivation- autonomy, mastery, and purpose-and offers smart and surprising techniques for suggesting a new paradigm of thinking about the motivation. **According to our framework this new paradigm that is, Type I or the third drive could be applied to the gentlemen, while Type X or the second drive could be applied to the little men.**

The following ancient phrase which is known to be passed from Ti Shun to Yu is an essence of wisdom for politics in Ancient China, summarizing the essence of ‘the Mean Philosophy’.

The mind of man is restless, prone to err; its affinity to what is right is small. Be discriminating, be uniform (in pursuit of what is right), that you may sincerely hold fast the Mean.” (The Shu King, Or Book of Historical Documents, Trans, James Legge, p. 42).

In this case the mind of man corresponds to reality, emotion (desire, self-interest) and people (mass), whereas what is right corresponds to ideals, reason (compassion, sympathy) and the ruler (elites). The wisdom to take the mean of these two becomes essential. The philosophy or the Doctrine of the Mean(中庸) can represent moderation, rectitude, objectivity, sincerity, honesty and propriety, because the guiding principle of the mean should be that one should never act in excess. Seemingly the philosophy is similar to pragmatism which Mahbubani(2011) stresses.⁶ Pragmatism is a philosophical movement that includes those who claim that an ideology or proposition is true if it works satisfactorily, that the meaning of a proposition is to be found in the

⁶ He concludes saying that “Pragmatism is the best guiding spirit we can have as we venture into the new century. It is therefore only appropriate to quote once again the greatest pragmatist of the twentieth century, Deng Xiaoping: ‘It does not matter whether a cat is black or white; if it catches mice, it is a good cat.’”(Mahubani, 2011, p. 279)

practical consequences of accepting it, and that impractical ideas are to be rejected. Pragmatism, in William James' eyes, was that the truth of an idea needed to be tested to prove its validity. The Mean Philosophy is, however, different from pragmatism in that the former emphasizes ethics and process whereas the latter advocates empiricism and consequences.

The main features of 'New Economic Thinking for Asia and from Asia' could be summarized as follows.

Firstly, it would start from 'going back to the basics, especially philosophical thoughts common to Asia and the West. Besides instead of homo economicus, the new economic thinking supposes another type of human-beings who have not only self-interest but also altruism and sympathy to other people, giving more values to freedom and rights, more focusing on the role of the gentleman.

Secondly, the new economic thinking expands the perspective beyond the modern main stream economics. It embraces not only classical or modern political economy but also interdisciplinary approach including political economy and cultural perspective.

Kim, Chi-ha(2011) mentions the communicative relationship between economy and culture or mind as follows.

Having experienced the deep black bubbles, humans are painfully aware that the economy is not merely life in the revealed outside and that mind and culture are not merely hope in the hidden inside, but they are engaged in communicative relationship of interactive fusion of the inside and the outside.

This perspective relates to the Asian tradition of holism.⁷

Thirdly, in order to resolve the contradictions of capitalist market economy or to derive adequate policy options for resolving current economic problems, it stresses the golden mean approach, which is to search for a balanced, harmonious and optimal point, to relationship between market and government or invisible hand and Leviathan, between theory and reality(or policy)⁸, not sticking to a certain ideology of a school or a thought.⁹ We need the

⁷ "we've seen that modern Asians, like the ancient Chinese, view the world in holistic terms: They see a great deal of the field, especially background events; they are skilled in observing relationships between events; they regard the world as complex and highly changeable and its components as interrelated; they see events as moving in cycles between extremes; and they feel that control over events requires coordination with others. Modern Westerners, like the ancient Greeks, see the world in analytic, atomistic terms; they see objects as discrete and separate from their environments; they see events as moving in linear fashion when they move at all; and they feel themselves to be personally in control of events even when they are not.. Not only are worldviews different in conceptual way, but also the world is literally viewed in different ways. Asians see the big picture and they see objects in relation to their environments – so much so that it can be difficult for them to visually separate objects from their environments. Westerners focus on objects while slighting the field and they literally see fewer objects and relationship in the environment than do Asians."(Nisbett, pp. 108-9).

⁸ David(2012) emphasized the importance of education for the optimal combination among the hands-off research, hands-on research and teaching. This golden mean could be regarded as the golden mean between science and philosophy or arts.

⁹ This is related to the Chinese classical education system. "The aim of the Chinese classical education has always been the cultivation of the reasonable man as the model of culture. An educated man should, above all, be a reasonable being, who is always characterized by his common sense, his love of moderation and restraint, and his hatred of abstract theories and logical extremes. – Literary Critic Lin Yutang"(Nisbett, 2003, p. 165-6). And more deeply it goes back to the Asian ancient philosophical tradition. "The reason for these differences in preference for contradiction are deep. There is a style of reasoning in Eastern thought, traceable to the ancient Chinese, which has been called Dialectical, meaning that it focuses on contradictions and how to resolve them or transcend them or find the truth in both.(Nisbett, 2003, p. 174)

The Confucian Golden Mean has some similarities with the Middle Way of the Buddhist philosophy. "Change produces contradiction and contradiction causes change; constant change and contradiction imply that it is meaningless to discuss the individual part without considering its relationship with other parts and prior states. The principles also imply another important tenet of Eastern thought, which is the insistence on

golden mean between Hsun tzu and Mencius regarding law(or institution) and ethics¹⁰. In this case, we should not give up altogether the intellectual accumulation or legacies of modern economics especially technical one and policy tools, still maintaining the mean approach of rejecting extremes.

In the 21st century we need a new paradigm emphasizing the upgrade of pragmatism to the mean philosophy and the roles of ethics and the gentlemen.

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finding the Middle Way between extreme propositions. There is a strong presumption that contradictions are merely apparent and to believe that 'A is right and B is not wrong either.' This stance is captured by the Zen Buddhist dictum that 'the opposite is a great truth is also true.'"(Nisbett, 2003, pp. 175-6)

¹⁰ Nowak and Highland(2011) emphasizes matching of the conclusions of science and mathematics with teachings of the world religion.

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