

# The political economy explanation of the logic of China's “two miracles”

The political  
economy  
explanation

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## Abstract

**Purpose** – During the Communist Party of China's endeavors over the past century, China has created “two miracles,” namely, large-scale and rapid economic development and long-term social stability.

**Design/methodology/approach** – The causes for China's achieving the “two miracles” lie in the adherence to the Party's leadership as the political guarantee, the scientific theoretical guidance as the ideological guarantee, the socialist system as well as the national governance system as the institutional guarantee and giving full play of people's creativity under the Party's leadership as the driving force guarantee.

**Findings** – From a political economy point of view, the theoretical logic behind the creation of the “two miracles” is that the combination of the state capacity and the scaling up of markets under the Party's leadership contributes to the rapid economic development and further the long-term social stability based on the financial foundation laid by rapid economic development. The historical experience of the “Two Miracles” can be summed up as the cultivation of state capacity under the leadership of the Party, the synergy and complementarity between the central government and local governments, the combination of development planning and market mechanisms, and the coordination of selective, functional and inclusive industrial policies.

**Originality/value** – It is necessary to judge future development trends from a medium and long-term development perspective, further promote the co-evolution of the state and the market, reshape the growth regime for high-quality development, fully tap the potential of domestic demand and create a “people-centered” economic development model so as to continue the “two miracles” and achieve a miracle of high-quality development in the second century.

**Keywords** The China miracle, Party leadership, State capacity, High-quality development

**Paper type** Translated paper

According to the Communiqué of the Sixth Plenary Session of the 19th Communist Party of China (CPC) Central Committee, through endeavors over the past century, the CPC has paved the right road for achieving the rejuvenation of the Chinese nation, enabling China to complete industrialization in a few decades (which took several centuries for developed countries) and achieve the “two miracles,” i.e. rapid economic development and long-term social stability. The “two miracles” is a significant conclusion based on a vertical analysis to compare historical data and a horizontal analysis to compare global peers (Xu and Shi, 2020). The China Miracle has been a major topic worldwide and is also called “China's secret” and the “China's secret to economic growth”. Appropriately understanding the “two miracles” proposed in the Communiqué of the Sixth Plenary Session of the 19th CPC Central Committee and its logic is critical to following and improving China's way of development in the new century. Therefore, it is necessary to interpret the logic behind the achievement of the “two miracles” from the perspective of political economy theories to further maintain the “two



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miracles” in the new century based on the summarized historical experience of the “two miracles” and create a new miracle of high-quality development.

### 1. Stylized facts of China’s “two miracles” and cause analysis

The Sixth Plenary Session of the 19th Central Committee of the CPC noted that the CPC’s endeavors over the past century have contributed to China’s two “miracles.” The term “miracle” indicates an improbable or extraordinary event, and the CPC’s accomplishments over the past century have gone beyond conventional predictions and the level of achievements that can usually be attainable, achieving large-scale rapid economic growth and long-term social stability in China, which has stood the test of time. Such outcomes are called “China’s two miracles.” A stylized fact of the “two miracles” is China’s rapid economic growth. Historically, after the First Opium War, China’s economy weakened, and its share in the global economy decreased. Angus Maddison (2008, p. 13) estimated that from 1840 to 1950, China’s GDP fell from a third to a twentieth of the world’s GDP, and China’s per capita income also fell while the per capita income rose threefold in Japan, fourfold in Europe and eightfold in the United States. In 1949, China’s total economic output accounted for less than 5% of the world’s total economic output; its gross national income reached \$23.9bn at that year’s exchange rate and \$44.26 per capita based on a population of 540m, which was 1/20th of the national per capita income of the United States, 1/11th of the United Kingdom, 1/6th of France (Ju, 2019).

Over a century of the CPC’s endeavor, the development of the People’s Republic of China for more than 70 years, especially the progress of the reform and opening-up over the past 40-plus years, has created two unprecedented miracles. The first miracle is China’s rapid economic growth, which could be attributed to the country’s efforts after its founding, especially the rapid development since the reform and opening-up. In 1952, China’s GDP was merely 67.91 billion yuan, with the per capita GDP at 119 yuan, while in 1978, its GDP reached 365 billion yuan, and the per capita GDP was 382 yuan. In 2020, China’s GDP stood at 101,598.6 billion yuan, and the per capita GDP was 72,447 yuan, making it the second-largest economy in the world. The People’s Republic of China has achieved a 1,496-fold increase in GDP and a 608.8-fold increase in GDP per capita over the 70-plus years since its founding, and especially a 278.35-fold increase in GDP and a 189.65-fold increase in GDP per capita in more than 40 years of reform and opening-up. China is now the world’s second-largest economy; the world’s largest manufacturer, merchandise trader and holder of foreign exchange reserves; and the second-largest recipient and source of foreign direct investment. Over the past 40 years of reform and opening-up, China’s economic growth has contributed about 30% to the world’s annual economic growth.

The other miracle is China’s long-term social stability. Throughout the CPC’s endeavors over the past century, the Party’s leadership has always been the backbone for maintaining social stability during China’s socialist development, and efforts have been made to uphold Party leadership in social and economic development, follow the fundamental guidelines of “one central task and two basic points” and place social stability high on the strategic agenda of social and economic development. It is necessary to identify the potential factors of social instability in time, actively deal with the complex conflicts that arise in development practice and persist in grasping the scientific methods of social stability in practical actions. The CPC has been insisting on coordinating the strength of reform, the speed of development and social affordability to continuously improve people’s lives and foster reform and development based on social stability. The efforts to promote social stability through reform and development have allowed China to achieve long-term social stability (Liang, 2009) and successfully dealt with various risks.

Since the reform and opening up, there has been no financial crisis in China, which has been resilient to the impact of financial crises in other countries. China has lifted hundreds of

millions of people out of poverty with a remarkable contribution to the global fight to eliminate poverty, providing a solution to Samuel Huntington's paradox, which is an incredible miracle in human history. China has greatly changed people's living standards from poverty to prosperity, comprehensive national strength from backwardness to continuous prosperity, and its international standing from being dominated by others to standing in the East of the world.

The academic circles have provided various explanations for the causes of the two miracles Chinese people achieved under the CPC's leadership over the past century. The mainstream explanation is that "the reform and opening-up is the direct cause of China's economic miracle" (Meng, 2014, p. 2). No doubt it makes sense. However, how the reform and opening up took place and how it has impacted the "two miracles" need to be further explained. The author believes four leading causes of the "two miracles" exist.

First, upholding Party leadership is the political guarantee for the "two miracles." Over the CPC's century-long history, the socialist system was established under the CPC's leadership, which laid the foundation of the political system for China's "two miracles." Under the Party's leadership, China established a comprehensive industrial system, accelerated the process of industrialization, and became the world's second-largest economy. Under CPC's leadership, the country has been committed to the emancipation of the mind, identified reform objectives and established a vibrant and dynamic socialist market economy. China has implemented multi-dimensional and broader opening-up and actively participated in globalization, not being close its door to the world anymore. The CPC has always prioritized the interests of the people, kept improving people's livelihoods and strengthened social governance while developing the economy, laying a solid economic foundation for China's long-term social stability.

Second, the guidance of the theories on adapting Marxism to the Chinese context is the ideological guarantee for the "two miracles." During the century-long history of China's revolution, development, reform and opening-up led by the CPC, Marxist economics and the theories on adapting Marxist economics to the Chinese context have exerted the ideological guidance of scientific theory and provided an ideological guarantee for the formation of the "two miracles." Mao Zedong Thought charted the course for securing victory in China's revolution and guided the path of socialism. Deng Xiaoping Theory put forward the basic line of the primary stage of socialism, shed light on a series of major theoretical and practical issues on building socialism, and implemented the historic decision of reform and opening up. The important thought of Three Represents is a further understanding of the meaning of socialism and how to develop socialism. The Scientific Outlook on Development provided a guideline for major theoretical and practical issues, such as achieving scientific development. Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era systematically is a systematic answer to uphold and develop socialism with Chinese characteristics in the new era, representing the latest achievement in adapting Marxism to the Chinese context and deepening the understanding of how to develop socialism with Chinese characteristics.

Third, the socialist and national governance systems are the institutional guarantees for the "two miracles." The CPC creatively employed Marx's theory of the state to develop and improve the socialist state system and the national governance system. Both the socialist system with Chinese characteristics and the national governance system facilitate China to make progress in development, develop the economy and achieve long-term social stability. The Party's leadership has clearly defined the direction and principle of social governance innovation, and the CPC has led the innovations in the social governance system, mechanisms and methods. China has advanced firmly on the path to common prosperity, ensured the principal status of the people and benefited all Chinese people with the gains of development by progressively developing and implementing policies, regimes and measures, facilitating the adjustment of the national income distribution pattern, and putting more efforts into income redistribution adjustment.

Fourth, giving full play of people's creativity under the Party's leadership is the driving force guarantee for the "two miracles". China would not have achieved rapid economic development and social stability without people's extensive participation and the joint force created by the combined involvement of all organizations. China's rapid economic growth has been driven by bringing people's pioneering spirit into full play, drawing on people's wisdom and strength, and coalescing "China's energy" and "people's wisdom" in the economic sphere. The diversity of employment, entrepreneurship, and consumption has released economic dynamism and driven rapid economic development. On the social front, China has maintained a positive relationship between government governance, social regulation, and citizens' autonomy and achieved social stability by improving people's livelihoods, adjusting income distribution and encouraging innovation in social governance.

## 2. The theoretical logic behind China's achievement of the "two miracles"

China's economic growth, which averaged 9.4% over 40 years with a relative standard deviation of less than 30%, is by far the longest, fastest and most stable economic growth in human history, surpassing all other economic growth miracles, such as the British Industrial Revolution, the East Asian economic miracle and the Indian take-off (Liao, 2019, p. 67). There are several explanations for the China Miracle in academia: First is globalization, believing China Miracle is the outcome of the opening-up policy. The second is internal reform, attributing the China Miracle to internal reforms, which include reforms of state-owned enterprises, private sector development, agricultural pricing system, rural operation system, land contracting system, financial system, fiscal system and tax system. The institutional dynamics resulting from these reforms have contributed to the China Miracle. The third is production-factors-dominated, arguing that the China Miracle comes from massive input of factors, mainly physical and human capital. The fourth is institution-dominated. It is believed that the China Miracle is mainly attributed to the institutional reforms of the ownership system, property rights system, financial system, enterprise system, trade system and marketization, as well as the restructuring of incentives resulting from the institutional reforms. These points of view have interpreted the China Miracle from different perspectives, and all of them are true up to a point. However, none of them explicate the deep-seated mechanism of China's "two miracles" or clarify the internal logic behind China's "two miracles." Given this, it is necessary to use the fundamental theories of political economy to analyze the logic behind China's achievement of the "two miracles."

From the theoretical logic of political economy, China's "two miracles" were driven by political factors at the superstructure level, including the state, government, master plans and public policies. According to the logic of the development-oriented political economy, China achieves the "two miracles" by improving its state capacity. During the century-long endeavor, the CPC changed its focus from the state and revolution to the state and development and has developed a powerful state apparatus. During the transformation, the competitive government capabilities of creating and developing markets have facilitated the creation of large-scale markets under the Party's leadership. The traction of large-scale markets drives China's industrialization, and the progress of industrialization facilitates the formation of China's "two miracles," which follows the logic of the co-evolution of the state and the market, propelling rapid economic development.

From development economics, economic development follows the principle of the coevolution of the state and the market, and the level of industrialization and technological innovation depends on the market size. For China, the market size formed in the "two miracles" is developed by the state capacity. And the state capacity of China is developed under the Party's leadership and has created large-scale markets, which triggers

industrialization, while industrialization promotes economic development. The compliance with a pattern of integrating the state capacity with the creation of markets has contributed to the achievement of the “two miracles”—rapid economic growth and stable development of the society. Thus, it can be said that China’s “two miracles” are attributed to the combination of the state capacity and the scaling up of markets under the Party’s leadership.

A necessary condition for economic growth is to develop both domestic and overseas markets and form a “dual circulation” development paradigm with the domestic market as the mainstay and domestic and overseas markets reinforcing each other. During the creation of China’s two miracles, the scale of the market triggers economies of scale, the development of large-scale markets incentivizes the division of labor and large-scale production in some sectors, and the large-scale production in individual sectors brings about the demand for large-scale production in other sectors. Driven by the division of labor and the linkage effect, all sectors engaged in the production process of the whole society participated in large-scale production, causing scale effects. The large-scale production scales up raw materials, intermediate products, equipment, energy and power, communication and infrastructure, contributing to the economy of scale. Historically, the scaling up of markets in many countries was achieved by wealthy merchants and financial intermediaries. In contrast, during the formation of the “two miracles,” China developed and scaled up the market through a powerful government and socialistic state apparatus under the Party’s leadership. The state capacity under the Party’s leadership promoted market development and expanded market size, thereby inducing economies of scale in production. The large-scale production not only fosters the division and specialization of labor but also facilitates the establishment of well-organized transportation, trade and credit systems and supporting systems for infrastructure.

In the Western world, the supporting system and infrastructure were fulfilled with the power of capital, while China built the supporting system for the “two miracles” by state capacity under the Party’s leadership. Before introducing the reform and opening-up policies, China moved forward in the process of industrialization through the state’s efforts and established a comprehensive industrial system and infrastructure system. Since China introduced the reform and opening-up policies, it promoted establishing a comprehensive infrastructure supporting system for the “two miracles” through the state’s capacity to create large markets: First, the large markets created by the state capacity under the Party’s leadership stimulated China’s industrialization and commercialization, which increased the demand for surplus labor in rural areas. The course of fulfilling “two miracles” has witnessed rural citizens integrated into migrant workers engaged in industrial development, large markets established for large-scale production, and entrepreneurs and skilled workers trained during China’s industrialization. Second, large markets created by the state capacity under the Party’s leadership gave rise to large-scale production mode. The rapidly increasing productivity and scale-up capacity of the manufacturing sector prompted the central and local governments to seek support from well-organized transportation, trade, and credit systems (Ren, 2020) and to develop domestic markets and expand international markets, which absorbed goods from large-scale production and provided raw materials for large-scale production. Third, large markets created by the state capacity under the Party’s leadership gave rise to large-scale production, leading to a wide-scale marketing system, raw material supply system, and industrial supply chain system. More specifically, the large markets created by the state in the course of the “two miracles” accelerated the process of large-scale production, which led to a rapid increase in productivity and production capacity of manufacturing and urged the central and local governments to open up actively. The vast international markets developed by the opening up absorbed goods from large-scale production, providing various capital and resources for large-scale production in China.

During the formation of the “two miracles,” the large markets created by the improved state capacity under the Party’s leadership triggered the wave of industrialization in China and consequently drove China’s rapid economic growth. The rapid development of the industrial sectors, comprehensive national power improvement, improvement in people’s living standards and the diversified consumption attributed to China’s rapid economic growth have, in turn, laid the economic foundation for China’s long-term social stability and further made it come true. As such, the combination of state capacity and the scaling up of markets under the Party’s leadership contributes to China’s “two miracles.” For a century of CPC’s endeavor, the state capacity under the Party’s leadership has scaled up the markets, developed strategies for developing markets and economies of scale, and worked on more efficient allocation of resources through the combination of large-scale production and large markets. The miracles of rapid economic development and long-term social stability have been achieved based on a fast-growing economy.

### **3. Theoretical summary of historical experience of China’s “two miracles”**

China’s “two miracles” result from large markets developed by improved state capacity under the Party’s leadership, which underpinned the institutional, human, capital, and infrastructure capacity for economic growth. Thus, China’s “two miracles” are mainly attributed to the state’s capacity to develop the markets under the Party’s leadership, and the miracle of long-term social stability was achieved based on the miracle of rapid economic development. According to the logic of political economy, China’s historical experience of the “two miracles” can be summarized as follows.

#### *3.1 Development of state capacity under the party’s leadership*

State capacity refers to the state’s abilities to regulate and manage the economy and govern and administer the society in order to achieve the policy goals of a given period and to use these capabilities to regulate economic functioning and development, govern society, promote innovation and respond to external competition and challenges. Specifically, it refers to a state’s capabilities for macroeconomic regulation and control, social development, creating social vitality and external security and defense. The state determines the capacity and level of a country to accumulate resources and transform them into available capabilities, including strategic capabilities and capabilities of market development, resource mobilization, regulation, redistribution and innovation. Over the last hundred years, under the Party’s leadership and with the Chinese people’s efforts, China has established the path of socialism and economic development that best fits its own circumstances, promoted industrialization and agricultural modernization, developed an open economy and achieved the improvement of state’s economic strength and comprehensive national strength. China’s state capacity can be attributed to the CPC’s successful leadership, and the strong state capacity shaped by the Party’s leadership is a major driving force for the two miracles. State capacity has promoted multi-level economic transformation, including the transformation of the economic system from a planned system to a market system; the transformation of industrialization from state-led industrialization to a dual structure combining state-owned sector and private sector industrialization, and urban and rural industrialization; the transformation of urbanization from a one-side structure to a dual structure combining state-level and local urbanization and townization; the transformation of the economic growth pattern from an extensive pattern to an intensive pattern; and the transformation of society from being closed to open to the outside world. The multilevel economic transformation has created new growth and dynamism mechanisms and space for growth (Ren and Liu, 2008), making production factors flow efficiently and promoting the miracle of rapid economic development.

### *3.2 Synergy and complementarity of functions between central and local governments*

The Chinese government's structure has unique characteristics, comprising the central and local governments, which play individual roles in economic development. The central government promotes economic development, formulates economic policies, carries out macroeconomic regulation and control, implements the opening-up policy and represents the overall and long-term interests of the state as the core of the economy, politics and culture in the society. The local governments are to promote local economic development by leading the local economic functioning and development by deploying public financial resources, establishing local development mechanisms, inviting businesses and attracting investment. In the "two miracles," China handled the relationship between the central government and local governments appropriately and fulfilled the complementarity of functions between the central government and the local governments. The central government promotes economic development in the overall interests of the society, performs macroeconomic management, provides public goods and services for the whole country and supervises and serves local governments. Although local governments represent local interests, they are a part of the overall national interests and not only implement the central macroeconomic policies but also carry out macro-administration for rapid economic development and stable social development in their regions, promoting rapid local economic development and stable social development.

### *3.3 Resource allocation combining development plans and market mechanism*

Development plans, as a kind of strategic and guiding overall arrangement, have played an important leading role in the course of China's "two miracles" and are a critical path of improving state capacity under the Party's leadership, accelerating rapid economic development and promoting social stability. When working the "two miracles," China has formed a path and regime conducive to national development by formulating development plans in various fields, which ensures the continuity of goals and policies. The development plan, the safest and most direct means of achieving rapid growth and stable development in the economic society, is widely accepted. "The formulation of development plans has become an important effort to play the role of the government better," Yang (2019, p. 11) indicates. State planning has provided an essential institutional and regulatory mechanism for maintaining the sustained high economic development in the formation of the "two miracles", condensing social consensus into national will, guiding resource allocation, restraining and regulating market behavior, and overcoming major obstacles to development. A comprehensive development policy framework based on the development plans played a crucial role in promoting economic development and reducing poverty, which promoted the organic combination of the development plan and the market mechanism during the formation of the "two miracles." The plans must align with the principles of development in terms of goals and contents, promote the role of markets, and identify the functional positioning of development plans. Development plans lead to putting the base of national development as the first development priority regarding the concept.

### *3.4 Coordinated guidance of selective, functional and inclusive industrial policies*

Before and at the beginning of the reform and opening up, China mainly adopted a selective industrial policy, which gathered national strength to promote industrialization, actively facilitated infrastructure construction, fostered leading industries and upgraded the industrial structure during industrialization. As China's economy entered a new stage, its industrial structure gradually shifted to the middle and high end of the global value chain, and the scope of global benchmark industries worldwide narrowed. In this context, China's industrial policies have changed from selective to functional and inclusive industrial policies.

Strengthening the fundamental position of competition policies regarding industrial development and coordinating the guidance of selective, functional and inclusive industrial policies are important experiences in forming the “two miracles.” First, in China’s two miracles, the policy goals shifted from scale-oriented quantitative expansion to qualitative industrial development with a focus on higher efficiency; improving the quality of industrial development with a focus on innovation, research and development and technological progress; promoting industries to enter the middle and high end of the global value chain; and advancing the industrial structure. Second, in the course of achieving the “two miracles,” China implemented a functional industrial policy aimed at strengthening the innovation drivers by promoting industrial innovation through technological innovation, building an innovation mechanism that integrates industry, academia and research institutes with enterprises as the main part and further developing new drivers for economic development around building a modern industrial system and modernizing the industrial chain. Third, the inclusive industrial policies implemented in the course of achieving the “two miracles” aimed to ensure fair competition among all market entities, enable the formation of a unified national large market, and facilitate the development of new technologies, new products, new industries and new business forms.

#### **4. Outlook for the second century: sustaining the “two miracles” and creating a new miracle of high-quality development**

According to the key points of the sixth plenary session of the 19th CPC Central Committee in 2021, the CPC has led the Chinese people in great efforts to create the unprecedented “two miracles” in the past century, and how to sustain the “two miracles” and create a new miracle of high-quality development in the second century has become an issue worthy of deep theoretical reflection. In order to do so, China needs to focus on the improvement of state capacity, the synergy and complementarity between the central and local governments, the combination of development plans and market mechanisms, and the coordinated guidance of selective, functional, and inclusive industrial policies on the new journey toward the Second Centenary Goal. Efforts should be made to sustain the “two miracles” and work the miracle of high-quality development in this process as follows.

##### *4.1 Identifying the future trends with a medium to long-term vision of development*

In order to maintain the “two miracles” and create a new miracle of high-quality development, China must meet the requirements for creating a new miracle of high-quality development, identify the trends of its future development with a medium- and long-term vision and promote the transformation of the China Miracle from the quantitative level to the qualitative level through the following efforts.

First, China should properly understand this era’s themes and the world’s megatrends. The correct judgment on the world’s theme and development trend is the basis for China’s strategic thinking on high-quality development, and the judgment on the world’s megatrends determines whether China can take the initiative in the fierce international economic competition. The CPC’s correct assessment of the megatrends and understanding that peace and development are the themes of the contemporary era have led to a shift in the focus of the Party’s and the state’s work and the beginning of China’s development in the new stage characterized by reform and opening up. Xi Jinping has made a judgment on the global development trend that the world is undergoing drastic changes unseen in a century and China is now in an important period of strategic opportunity for development and will remain so for a long time. According to this judgment, China should actively participate in globalization and build a new development paradigm of “dual circulations” (domestic and

international circulations) in the process of sustaining the “two miracles” and working a new miracle of high-quality development.

Second, China should gain a scientific grasp of its national conditions, which is the key to achieving a major power’s economic development led by the century-old CPC. Before the founding of the People’s Republic of China in 1949, the CPC had acquired a relatively comprehensive and informed understanding of China’s conditions, especially the situation of China’s economy. After the reform and opening-up policies were introduced in 1978, the primary stage of socialism proposed by Deng Xiaoping was his remarkable contribution to the understanding of China’s national conditions. Since the 18th National Congress of the CPC in 2012, Xi Jinping has reiterated the importance of respecting China’s national conditions and taking a realistic approach, which means China should preserve its legacy and follow the previous path to its current development achievements.

Third, China should develop a precise understanding of the characteristics of economic development at different stages. Since there are different features in the stages of China’s economic growth, the economic goals, tasks, approaches, policies and strategies of China vary in different stages. In the report to the 19th National Congress of the CPC in 2017, Xi Jinping proposed the decision to pursue high-quality development. According to the resolution of the fifth plenary session of the 19th CPC Central Committee in 2020, China has built a moderately prosperous society in all respects and embarked on a new journey to build a modern socialist country in all respects, indicating that China has entered into a new stage of development. China should start from the characteristics of the new development stage, identify the new tasks of the new development stage, and formulate new roadmaps, approaches and policies to sustain the “two miracles” in the new century and further work a new miracle of high-quality development.

#### *4.2 Promoting the ongoing co-evolution of China and its markets*

China’s “two miracles” are attributed to the socialist market economy and large markets created by China’s state capacity under the Party’s leadership. Since the reform and opening-up, China’s socialist market economy has faced three major challenges: Will China successfully establish a socialist market economy? How to establish a socialist market economy? How to maintain a socialist market economy? The first two challenges have been solved after over 30-plus years of development. As China’s economy has entered a stage of high-quality development, the task of maintaining a socialist market economy is now on the agenda. To sustain the “two miracles” and create a new miracle of high-quality development in the second century, China needs to go through the transformation from establishing a socialist market economy to maintaining a socialist market economy while promoting the ongoing co-evolution of the state and its markets.

First, China’s market economy should be transformed from a primary level to an advanced level. In creating a new miracle of high-quality development, China should achieve the transition from enlivening the market to creating the market, from regulating the market economy to governing the market economy, from creating market shares to creating market space, from improving the market economy system to improving the credit system, and from regulating the market economy to regulating the support for market economy.

Second, China should expand domestic demand by taking advantage of its mega-market. In creating a new miracle of high-quality development, China should generate a high level of supply by unlocking a high level of demand, improving the quality of the supply system and promoting a shift of the China Miracle from quantitative to qualitative growth.

Third, China should integrate the decisive role of the market with better government functioning. In working on the new miracle of high-quality development in the second century, China should promote a better combination of efficient markets and competent governments and motivate market entities to participate in resource allocation more actively and creatively by rationalizing the relationship between the government and the market,

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clarifying the basic rules of market economic activities, limiting the scope of activities and boundaries of the behavior of the government in terms of performing its duties and exercising its powers, promoting the regulation of economic order and facilitating the transformation of government functions.

#### *4.3 Reshaping the growth system for high-quality development with state capacity*

China's "two miracles" were formed in the context of the traditional growth system. Due to the impact of the new technological revolution worldwide and changes in domestic resource endowments, China needs to develop robust state capacity under the strong leadership of the CPC and reshape the growth system for high-quality development so as to sustain the "two miracles" and create a new miracle of high-quality development from two aspects.

First, reshaping the system of growth sources for high-quality development. Such sources of economic growth include the improvement of inefficient sectors, the transformation of traditional industries, the growth of new industries, the increase in income of the low-income group, expansion of the middle-income group and improvement of human capital, upgrading of demand structure, supply structure and industrial structure and cutting-edge innovations. The system of growth factors for high-quality development is constructed on the basis of these sources. The factors and institutional conditions on which these sources of growth are based vary, but the conditions and levels are materially higher. Fully unleashing potential growth is the key to creating a new miracle of high-quality development.

Second, reshaping the system of growth strategies for high-quality development, including strategies for better quality, higher efficiency, middle-income group expansion, industrial upgrading and transformation towards green development. The strategy for higher efficiency is to effectively protect the legitimate rights and interests of all market entities by improving intellectual property protection and creating a robust law-governing environment. The strategy for expanding the middle-income group is in income distribution and, more importantly, in human capital improvement with a focus on improving living, medical, and educational conditions through basic public services so as to improve the physical and intellectual abilities of the labor force. The industrial upgrading strategy is to promote the upgrading of the basic industrial capacities, the modernization of industrial chains and the opening up of services to both the domestic and international markets so as to make Chinese industries and enterprises more confident in opening up in the new development stage and promote the integrated development of manufacturing and service sectors. The strategy for transformation towards green development is to boost the understanding of green development, promote natural capital measurement, accounting, and trading and establish action goals and an incentive mechanism for green development.

#### *4.4 Releasing the full potential of domestic demand*

To sustain the "two miracles" and create a new miracle of high-quality development in the second century, China must unleash potential domestic demand and develop its potential for economic growth. It is expected to shift the focus of economic development from production to consumption and generate high-quality supply by unlocking high-quality demand to develop a high-quality supply system with the following requirements.

First, optimizing the economic structure as the main task. China should work on both the supply and demand sides and combine demand management and supply management so as to improve enterprises' quality and innovation capacity; combine innovation chains with industrial chains, boost the modernization of industrial chains, optimize the industrial structure, improve product quality and upgrade the products to facilitate China's industrial structure to move towards the middle and high end of international industrial chains.

Second, taking quality and efficiency as the driving force. China should combine reforms in efficiency, quality and momentum and pursue both quality and efficiency to improve the

quality and efficiency of economic operation and development, advance basic industrial capacity, promote the transformation and upgrading of the economic structure and increase industrial added value.

Third, building a unified national large market. China should promote domestic circulation, break the barriers to the flow of products and production factors between regions and remove pain points and clear blockages in domestic economic circulation. Also, it should encourage industrial mergers and restructuring, facilitate the building and development of a unified domestic market, and actively integrate into the international market circulation to create conditions for a unified mega-market to work a new miracle of high-quality development.

Fourth, achieving domestic circulation. China should reduce industry and market barriers to entry, seek greater openness, increase the liquidity and security of domestic markets, facilitate domestic market circulation, and allow products and production factors to circulate smoothly in domestic markets.

Fifth, upgrading industrial chains and supply chains. China should combine innovation chains, industrial chains, supply chains, and talent chains, give full play to the demand advantages of China's mega-market and the supply advantages brought by the well-established industrial system, promote the high-quality development of the real economy and manufacturing industry and improve the modernization of China's industrial chains and supply chain. China should implement innovation-driven strategies, make breakthroughs in critical and core technologies in terms of technological innovation, improve the modernization of industrial chains and supply chains, and cultivate and grow new impetus for high-quality development through the development of strategic emerging industries. In addition, the state should improve the supply structure, adapt to new changes in demand, improve the quality of supply and facilitate the emergence of new sources of growth to create a new miracle of high-quality development based on sustaining the "two miracles." China needs to build a complete domestic demand system, improve the quality of demand and play the fundamental role of consumption and the key role of investment. A new miracle of high-quality development in the new century should begin with improving the quality and level of domestic demand.

#### *4.5 Creating a "people-centered" economic development model*

Sustaining the "two miracles" and achieving a new miracle of high-quality development depends on a specific economic development model. Therefore, China's economic development requires shifting from a traditional model that started from scratch to a new people-centered one. With personal development as the purpose, China should establish a people-oriented economic development model by empowering the people, laying the foundation for working a new miracle of high-quality development.

In terms of the goal, a new miracle of high-quality development should be people-oriented, which means that economic development aims not only to satisfy people's material needs but also to satisfy their spiritual needs. In terms of content, a new miracle of high-quality development requires China to promote the convergence of the industrial system and the ecosystem, create a synergy between industrial development and environmental protection and align economic goals with environmental goals so as to protect the environment throughout every link of creating the miracle of high-quality development. Various indicators, such as ecology and environment, should be integrated into the indicator system for measuring high-quality development. The effectiveness, comprehensiveness and coordination of economic development should be highlighted in measuring the quality of economic development. In terms of characteristics, economic development over time should satisfy the demand of people of different generations, and spatial economic development should meet the needs of all contemporary people. Efforts should be made to achieve an intergenerational balance and create a favorable social and ecological environment suitable for the development of humans and nature.

In terms of the income distribution system, China adheres to an income distribution system in which the distribution according to work is dominant and a variety of distribution modes coexist with the goal of common prosperity to form a benefit-sharing mechanism. China should increase the share of labor income along with the increase in labor productivity, adapting to the development of an innovation-driven economy and encouraging creative labor and innovative activities. For the purpose of common prosperity, more channels should be developed to increase people's labor income and property income. China should increase the income of the low-income group, expand the middle-income group, regulate the income of the high-income group and narrow the excessive income gap so as to create a new pattern of income distribution to regulate the high-income group, expand the size of the middle-income group and support the low-income group. In addition, China should promote shared development and improve the redistribution adjustment mechanism by promoting equal access to basic public services, accelerating social security system reform and boosting the high-quality development of public services.

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