

Expanding and developing the theoretical implications of socialist market economy with China's experience

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Abstract

Purpose – Expanding and developing the theoretical implications of socialist market economy with China's experience.

Design/methodology/approach – In the course of exploring the development of a market economy, China has given full play to the advantages of the socialist system, which has distinguished itself from the Western countries and some of its developing peers. China's market economy is not directly transplanted and copied from the West. China not only insists on growing its market economy but also unwaveringly sticks to the socialist orientation of its market economy.

Findings – So far, the socialist market economy has proved to be more effective than the conventional one-sided, planned economy and also outperforms the capitalist market economy.

Originality/value – The socialist market economy has surpassed the conventional planned economy and the capitalist market economy – it is a reconstructed and reshaped mechanism and system as well as a successful and new path of market economy explored by China through reform and opening up, rather than a counterpart of Western market economy or the simple combination of socialism and market economy.

Keywords China's experience, Socialist market economy, The advantages of the socialist system

Paper type Translated paper

Given the success of reform and opening up, China's governance has stood in stark contrast to the turbulence in the West and the key to China's successful embarking on a path of socialism with Chinese characteristics lies in not only promoting and exploring the market economy development but also firmly grasping the overall situation and right direction of the socialist market economy. The achievements of China's reform and opening up over the past 40-plus years have presented a new socialist market economy model that enables a market economy to maintain its vitality and vigour.

"Developing the market economy under socialist conditions is a remarkable CPC invention," China's President Xi Jinping said. "One of the crucial factors for China's economic success is that we have brought into play the advantages of both the market economy and the socialist system." A review of history shows that the adherence to theoretical innovation and the continuous promotion and exploration of the development of a socialist market economy is the basis of China's great success in economic development—in a few decades, it has completed a modernisation process that took hundreds of years for developed countries to complete, creating a development miracle rare in human history.

In the course of exploring the development of a market economy, China has given full play to the advantages of the socialist system, which has distinguished itself from the Western countries and some developing peers. China's market economy is not directly transplanted



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and copied from the West. China not only insists on growing its market economy but also unswervingly sticks to the socialist orientation of its market economy. So far, the socialist market economy has proved to be more effective than the conventional one-sided, planned economy and also outperforms the capitalist market economy. The socialist market economy has surpassed the conventional planned economy and the capitalist market economy—It is a reconstructed and reshaped mechanism and system as well as a successful and new path of market economy explored by China through reform and opening up, rather than a counterpart of the Western market economy or the simple combination of socialism and market economy.

1. The socialist market economy is not a counterpart of the western market economy

According to the Western theories, there is only one model and one set of standards for a market economy: the market economy based on private ownership. However, the Western market economy is not the ideal of a market economy or the standard model of a market economy. China's reform and opening-up efforts over the past 40-plus years have renewed the hackneyed understanding of a socialist economy, revitalised and energised the socialist economy and also disrupted the conventional assertion that equates market economy with capitalism, bringing new implications to a market economy.

In 1998, Xi Jinping proposed that “establishing a system of the socialist market economy is an ambitious social practice” when analysing how to develop and improve the socialist market economy and Marxist economics. The successful experience of China's reform and opening up demonstrates that the socialist market economy differs from the conventional planned economy and the Western market economy. The difference between the socialist market economy and the conventional planned economy is that the socialist market economy introduces the market mechanism, which is based on a price system, maximises producers' motivation and enhances economic vitality and efficiency; and the difference between the socialist market economy and the Western market economy is that the socialist market economy integrates public ownership and the market economy in economic activities, avoiding the pitfalls that full marketisation may bring. The socialist market economy cannot be taken as a counterpart of the Western market economy. Over the past four decades of reform and opening up, China has never adopted a Western market economy as an ideal model, let alone measured China's socialist market economy against the model of the Western market economy.

In recent years, some Western countries claimed that a socialist market economy is not a real market economy and some even argued that China's socialist market economy is state capitalism. However, China's socialist market economy has enriched and developed the market economy, and it is inappropriate to use capitalist-oriented standards and criteria to judge China's market economy. As a primary economic system, the socialist market economy transcends the capitalist market economy.

In contrast, the Western countries are struggling with dilemmas. They are still confined to and restrained by the development path they stepped on hundreds of years ago without a profound reflection on themselves because they fail to properly handle the relationship between domestic and foreign affairs or the relationship between the market and the government. Especially since the 2008 Financial Crisis, the system of the Western market economy has been widely questioned. More and more countries realise that their confidence in the system and development model of the Western market economy is shaking. The superiority of the capitalist market economy boasted by the West has been overshadowed, and the Western countries have lost their ability to solve problems and promote state development because they have become complacent in their fixed ideas

about the capitalist market and have taken these ideas as the criteria for considering realities and practices.

2. A market economy is an exchange economy

A market economy is a form of economy for exchange. Therefore, a market economy is, by nature, an exchange economy. In *On the So-called Market Question*, Lenin (2013) said the “market” arises where, and to the extent, the social division of labour and commodity production appears. The dimensions of the market are inseparably connected with the degree of specialisation of social labour. In the view of Marx (2009a), to become a commodity, a product must be transferred to another, for whom it will serve as a use value, by means of exchange. Without exchange, a product will not become a commodity and there is no ground for the existence of a market economy. In addition, Marx (2009b) mentioned that “if the market, i.e. the sphere of exchange, expands, then production grows in quantity and the divisions between its different branches become deeper.” The most distinctive feature that separates a market economy from a product economy is that a market economy maximises profit through expanding market exchange.

Exchange arises from the social division of labour. Therefore, the social division of labour determines the emergence and development of a market economy. The form of ownership determines only the nature and features of a market economy. The need for exchange amongst producers comes into being as the singularity of each producer’s production conflicts with the diversity of demand due to the social division of labour. A commodity economy and a market economy are both exchange economies by nature. What a commodity economy emphasises is the form of the exchange economy, whilst what a market economy emphasises is the system of the exchange economy. Obviously, a market economy arises and develops from the emergence and evolution of the social division of labour, which is the corollary of the expanding social division of labour and exchange instead of the capitalist economy and its private ownership. As a form of the exchange economy, a market economy can trace its origins much earlier than the capitalist system. The capitalist system is not the cradle of market economies; instead, the market economy induces the capitalist system. Therefore, a market economy is not an economic system and should not be equated with a capitalist economy. Likewise, a planned economy should not be equated with a socialist economy.

No consensus has been reached on defining a “market economy” in Chinese and Western classical literature. However, as an exchange relation or a system of market institutions, market economies have existed in different social formations throughout the history of human beings. Resource allocation is a concept derived from the Western economics. Therefore, it is necessary to redefine the market economy based on the history of the market and think outside the box of Western economics, which regards a market economy as the allocation of resources.

Unfortunately, people failed to do so in the past when they tried to define a market economy or a planned economy. The market economy can be defined as the sum of exchange relations by systematically analysing the theoretical origin and practices in terms of market economy concepts in combination with China’s latest thinking on the market economy. For one thing, the definition of market economy in the general sense that the market plays a decisive role in the allocation of resources will be subject to the stereotypical Western discourse, which always believes that China’s market economy is not a real market economy because of too much state intervention. For another, a market economy is far more complex and profound than resource allocation. Taking this standpoint is more relevant to providing a cogent response to the Western accusations that China does not have a real market economy.

Based on the definition of the market economy as an exchange economy, it is necessary to clarify some common misconceptions and misinterpretations at home and abroad relating to China's market economy so as to better understand the relationship between the market economy and the global economy.

3. A market economy is an open economy

The reform and opening up have facilitated the establishment of China's socialist market economy, which is one of the essential and core elements of the country's reform and opening up. The socialist market economy has not only defined the pathway and direction of China's reform and opening up but has profoundly impacted the global economy. China has benefited from opening up and economic globalisation and made remarkable contributions to the global economy through active participation in economic globalisation (Zhou and Feng, 2018). China's economic progress over the past 40-plus years has been based on opening up, and the high-quality development of China's future economy must be based on a higher degree of openness. The socialist market economy is the direction of China's economic development. The market economy is an open economy and derives vitality from openness. The larger the market exchange scale in a country, the larger the GDP of the country. Only a market economy can boost China's economy and integrate it into the global economy better.

A market economy is born from economic globalisation and grows together with economic globalisation. The market economy is not a real market economy if isolated from economic globalisation. Only through a comprehensive understanding and deep knowledge of the market economy can people develop a clear vision for real market economies worldwide. The Western countries, such as the United States of America, proclaimed that they have a real market economy but took a range of anti-globalisation actions. In contrast, China has embraced the world with more openness and self-confidence, unswervingly followed the path of a socialist market economy with Chinese characteristics and continued to unleash the vitality and vigour of its market economy. It demonstrates that the socialist market economy with Chinese characteristics does not deviate from the market economy in terms of the essence but expands and develops the theories and practices of the market economy.

A socialist market economy can by no means serve as evidence of the isolation of a market economy from the global economy. In fact, the formation and development of China's socialist market economy enable China's domestic market to connect with the international market effectively and China has made significant contributions to the global market since the increasing integration of the socialist market economy into the global economy. Data from the National Bureau of Statistics of China showed that China accounted for approximately 16% of the world economy and contributed nearly 30% of world economic growth in 2019 [1]. China's high-quality economic development will bring more opportunities to the rest of the world. According to the McKinsey Global Institute's research report, the engagement between China and other economies is expected to generate an economic value of US\$22tn–US\$37tn by 2040 – equivalent to 15–26% of the world's GDP (Zhang, 2019). China is not only the “world's factory” and “world's market” but also the world's R&D base and the venture capital centre, with a vital position in the global supply chain, industrial chain and value chain.

By adhering to the essence of the market economy, China's socialist market economy continues to achieve historic success, further expand and develop the market economy and show the vitality and vigour of the market economy. China has made exceptional achievements today, which also embodies the tremendous success of the socialist market economy. From this view, China's socialist market economy is significant to the world, not because it provides a “standard pattern” of market economy, but because it presents a belief, that is, to deal with issues in the national conditions, make its own way, persistently focus on theoretical innovation, maintain self-reliance and self-revolution and learn from all

meaningful practices with a global perspective and an open-minded attitude, paving the road to success relating to its socialist market economy. It does not mean that China's socialist market economy is not a real market economy. By contrast, the anti-globalisation trend in some Western countries contradicts the essential features of the market economy.

4. A high-standard modern market economy must rely on the dynamic combination of the government and the market

According to mainstream Western economic theories, a market economy is the spontaneous or extended order of individuals independent of state intervention, while the government is an exogenous variable of economic development. The school of mainstream Western economics blindly defends a completely free market and strongly opposes state intervention. They argued that in a free market, state intervention is hardly necessary. Government actions can make the economy ineffective, and a free market economy should have little or even no state intervention. According to the logic behind mainstream Western economic theories, the rise of the West can be attributed to the dedicated efforts to uphold a market economy, oppose state intervention and advocate laissez-faire and spontaneous order. However, the laissez-faire market economy is just a primitive market economy instead of a modern one. The more modern a market economy is, the more emphasis is placed on a better role of government, as a weak government can only bring about chaos in economic development.

Such Western theories, not underpinned by dialectics or historical materialism, just evolved from logic to logic and from theory to theory, which failed to consider the logic behind history and practice. One of the most important principles for reviewing China's successful development experience is to pay attention to the alignment of the logic behind theories, practice and history. Instead of getting stuck in theories or being trapped by dogmatism and empiricism, this paper proposes to expand and develop theories through practice, focussing on the continuity of history and the innovation of practice.

Overall, the "China Miracle" could not be achieved without comprehensively deepening reform and appropriately handling the government and market relationship is the core issue of China's economic system reform. According to conventional Western economics, a zero-sum game exists between the government and the market. From Say's Law of Markets, supply creates demand automatically and the market will adjust production automatically; however, it has been disproved by the cyclical outbreak of crises in the capitalist world, especially the problem of overproduction. Keynes proposed that state intervention should be implemented due to insufficient effective demand, but the stagflation crisis with a high unemployment rate, high inflation and a low economic growth rate has manifested the failure of Keynesianism.

The neo-liberalism that has prevailed in the West since the 1980s, with its emphasis on liberalisation, marketisation and privatisation and its rejection of state intervention, has resulted in an over-financialised and virtualised economy that has done great damage to the real economy, the basis of the national economy. In contrast, the socialist market economy with Chinese characteristics reshapes the relationship between the government and the market, realises the organic combination of the market and the government by emphasising the better role of the government and breaks through the Western-dominated theory of the government's substitution for the market, treading a stable path of comprehensive development.

One of the biggest problems so far is that, all along, most of the definitions and implications of a market economy available in textbooks and accepted by people have come from the Western economic theories. Historically, the massive introduction of terms, concepts and theories of the Western economics has undeniably played a positive role in promoting and boosting economics research and education in China's learning from the practical efforts of foreign market economies. However, there have also been cases of blind worship, copying

and applying mechanically, indiscriminative alignment and benchmarking and blindly believing the culture and ideas of colonialism proposed by foreign people and books.

Today, there is every reason to believe that success in practices has laid a solid foundation for independently establishing a theoretical system of Chinese economics. The Chinese should, in the spirit of independence and self-revolution, reflect the previous academic thought on economics and correct the mistakes of foreign dogmas and outdated foreign doctrines; absorb the useful parts of foreign economic theories and methods on the basis of the scientific foundation – adapting Marxism to the Chinese context and the needs of the times; derive more Chinese economic discourse and theories from China’s achievements and experience of economic development, breaking through the Western economic discourse and theories and never be subordinate to the Western economic theories. China should not be a testing ground or racecourse for the Western economic theories; instead, China should expand and develop the theoretical implications of the market economy with its own experience.

Note

1. Refer to the Statistical Bulletin of the National Economic and Social Development of the People’s Republic of China (2019), published by the National Bureau of Statistics of China.

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