What is the Relation of Markets, Property, and Freedom in the Liberal Script

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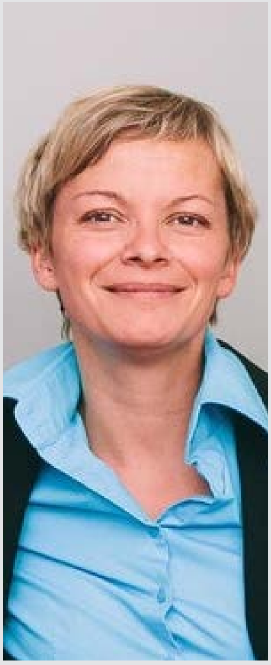
China's economic script is eclectic and continuously adapting to changing circumstances. It combines both liberal, statist and socialist elements and the weight of each has varied both across time and between sectors. In the course of China's great transformation, Chinese leaders have sought to strike a balance between pro-innovation policies and interventionist measures. In the Xi Jinping era, the pendulum has swung in the direction of tighter control and more market interventionist policies, although there is often a pronounced gap between the declaratory socialist proclamations of recent years and actual economic developments on the ground.



1 CHINA'S MARKET ECONOMY MODEL: PARTY-STATE CAPITALISM

In the early period of "reform and opening" after 1978, Chinese policymakers and scholars engaged in open debates about how to build a "socialist market economy with Chinese characteristics." They sought out lessons on everything from industrial policy to pricing reforms from the East Asian developmental states, Western interlocutors and countries in the Soviet bloc experimenting with market transition (Heilmann/Shih 2013; Eaton 2015; Weber 2021; Leutert/Eaton 2021). In applying these lessons learned from abroad, decisionmakers generally did not adopt foreign approaches wholesale and instead tailored them to local circumstances, often using pilot projects and other experimentalist methods to test out policies on a small scale before rolling them out more widely.

In recent years these earlier features of debate and open experimentation have often been overshadowed by a more intrusive and domineering role of the Party in the economy. Indeed, it has been argued that China has evolved away from a model of “state” or “state-permeated” capitalism (Nölke et al. 2019) to one of “Party-state” capitalism (Blanchette/Polk 2020; Pearson et al. 2020), although there is continuing debate in the field over how to define the degree of continuity and change in Xi era economic policy (Leutert/Eaton 2021). The claim made by proponents of the Party-state capitalism concept is that the Party-state’s political survival now trumps developmental goals, in stark contrast to previous eras when delivering the economic goods was the overriding ambition (Pearson et al. 2020).

2 MECHANISMS OF GOVERNING THE ECONOMY

The state steers the economy through industrial policies, guidance planning, price controls, and the provision of loans by China’s state-owned banking system sector. Barry Naughton (2022) has argued that as the state’s techno-nationalist ambitions have grown, since roughly 2000, “grand steerage” has become the overriding paradigm of state-business relations, defined as the state’s turn to the “use of massive resources to drive a market-based economy towards a visionary outcome” (Naughton 2022: 105). Especially since the landmark *Made in China 2025* policy issued in 2015, massive state investment has flowed to target high-tech sectors such as semiconductors, robotics and AI.

Chinese leaders employ a combination of tools to govern the state-owned “commanding heights” of the economy: bureaucratic control, the cadre management system, embedded Party organizations, and campaigns (Leutert/Eaton 2021). First, while the supply and demand of land and capital stayed under state control, China adopted a flexible bureaucratic design and control mechanisms to support the development of markets. The cadre management system as well as leadership rotation are also crucial – here individual enterprise managers are rated by the Communist Party on various criteria such as firm performance and enterprise adherence to state policies, providing a powerful incentive for state-owned enterprise (SOE) managers to follow Beijing’s line. Rotation of SOE heads from one enterprise to another is often used to check and counter the development of corrupt clientelist networks within state firms. The mechanism of joint appointments also plays a key role, whereby managers of SOE managers simultaneously hold high-ranking positions in the Communist Party hierarchy (Leutert/Eaton 2021). Furthermore, SOEs all have Party committees which work alongside senior management, allowing the Party direct influence over the selection of senior personnel, recruitment of party members, and organization of propaganda and study sessions within the SOEs.

In its governance of non-state firms, Party Committees have become increasingly important in recent years. Since 1993 it is required by law that companies in China allow the establishment of a Party cell within the company and since the 2015 adoption of a "Party building" policy directed at SOEs, growing numbers of private firms have established Party committees in order to signal their loyalty to the Communist Party (Lin/Milhaupt 2021). According to the Chinese Private Enterprise Survey in 2020 (CPES n.d.), nearly 50% of smaller private businesses and over 90% of China's top 500 companies host a party unit. This number will likely increase because since 2018 it is mandatory for domestically-listed companies to create a Party unit. Large companies are even expected to appoint full-time party secretaries and party workers as well as to make sure that the Party plays an important role in matters of hiring to the extent that the company should adopt a Party-led HR structure (Doyon 2021). But some close observers argue that the Party committee movement in the private sector often amounts to "noisy signaling" of fealty to the state and they generally play a minimal role in day-to-day decision-making (Lin/Milhaupt 2019).

3 STATE CONTROL AND MARKET COORDINATION: CHINA'S TIERED ECONOMY

In the post-Mao era, marketization proceeded in many areas of the economy and forms of private ownership began to boom from the early 1990s, but state ownership did not retreat from all sectors. China's state allocation principle through the reform era has been characterized as a three-tiered economy system (Pearson 2005; Yeo 2020) whereby the economy is divided into three tiers based on the strategic importance of the sectors in the eyes of China's top leaders. The higher the tier, the more strategically important an industry for the Chinese government and the more state guidance is applied. The top tier consists of the strategic industries and national champions, such as the oil and gas industry as well as the telecom sector. The middle tier includes sectors that are strategically important but are subject to less state control (e.g., because of enterprise ownership or foreign investments), such as the auto industry. The bottom tier consists of the majority of private firms that are of less strategic value and therefore less closely regulated. For instance, a company in the textile industry will strongly feel market mechanisms whereas a telecom company, because of its strategic importance for the Chinese government, will be much more influenced by state guidance than by market mechanisms. As suggested above, the rise of “grand steerage” has made the divisions between tiers blurrier since the state’s investments in tech sectors often goes to non-state firms.

4 USING MARKET MECHANISMS TO STRENGTHEN PARTY-STATE CONTROL

At the same time that a new generation of non-state strategically important firms are coming in to the state’s orbit, there are also important shifts underway in the state-owned commanding heights. Resource allocation in so-called strategic or first-tier sectors is also partly left to markets and market mechanisms. Yet, in these key sectors, the Chinese state „rules by the market” (Rithmire 2023) meaning that market mechanisms are used to facilitate state control over the efficient allocation of resources. The state keeps tight control over resources by controlling the supply and demand of land and capital and not allowing market price-setting. At the same time, the Party-state is embracing market mechanisms to facilitate competition and address problems of resource misallocation.

Importantly, in the pursuit of economic growth and social stability needed for Party survival, China’s top leaders use various mechanisms to discipline businesses and state actors. The state adopts institutional reconfigurations such as macro controls and drawing of “red lines” to adjust market mechanisms to minimize overinvestments and speculations. In severe cases, the state responds by employing sharper authoritarian instruments, including populist crackdowns and state coercion (Rithmire 2023). Campaigns are also frequently used by Party-state leaders to govern both the state and private-owned economy by pressuring compliance on particular issues and for ideological conformity (Leutert/Eaton 2021). Yet, even in these phases of crackdowns and heavy campaigns, the Party-state continues to retain some market mechanisms as they are seen as important instruments to support state goals (Rithmire 2023).

5 CYCLES OF LIBERALIZATION AND CRACKDOWNS

The frequent interventions by the state to discipline market actors result in cycles of liberalization and crackdowns. The development of the internet industry in China can illustrate this. As a key strategic sector, from the late 1990s till 2021 the internet industry benefited from a combination of favorable industrial policies, but also minimal regulatory oversight and no data security laws, allowing Chinese internet firms to flourish without much state intervention. During this liberal period, tech giants like Baidu, Alibaba and Tencent (BAT) expanded quickly and are at the center of China's tech growth. As the state has begun to fill the regulatory and legal holes in the Internet landscape, the BAT firms assisted with the build-up of the Chinese Communist Party (CCP)'s digital security apparatus, playing an active role in making China's authoritarian regime a "smarter" state (Huang/Tsai 2022).

Yet, in 2021 the political atmosphere changed drastically for these celebrated internet firms. After publicly disagreeing with China's financial regulators in October 2020, Alibaba's Ant Group's Initial Public Offering (IPO) was suspended in November 2021 and Jack Ma disappeared for two years. In the months following, state regulators started a widespread crackdown of the private tech industry. More than 35 tech companies received large fines to rectify antitrust practices and new data regulations and security laws were implemented. While some of the crackdown measures were motivated by antitrust regulatory concerns, this ad hoc and harsh crackdown measures functioned as a reminder to increasingly confident tech businesses of who ultimately has the final say in the market. These actions were also a warning to the entire private industry – by "killing the chicken, scare the monkey" the CCP showed that companies should not only play by market principles but also stick to CCP rules. In March 2023, Alibaba announced restructuring plans to transform the company into six units, addressing proactively the Party-state's concerns about the unhealthy concentration of power in the fin-tech industry, thereby funneling hopes of renewed regulatory support for the industry. In parallel to this restructuring announcement, Jack Ma also reappeared in China, and many read this as a signal of a new cycle of a supportive regulatory approach to the tech industry (He 2023).

6 IS CHINA'S ECONOMIC SCRIPT BECOMING MORE (IL)LIBERAL UNDER XI'S LEADERSHIP?

While there is a widespread perception that "Xinomics" is essentially illiberal, the reality is more complex. There are certainly evident shifts in the official ideology under Xi as well as an overall trend towards more coercive market interventions, yet market forces remain deeply embedded in China's dynamic economy.

At the level of ideology, Xi has been much more assertive than his predecessors in claiming that Chinese-style modernization offers an alternative to the western equation of growth and democracy. While there is long-standing debate about how to define the so-called "China Model" and whether such a thing really exists (Zhao 2010; Ferchen 2013; Bell 2016), Xi's political rhetoric emphasizes socialist ideology as a key ingredient of the China Model much more strongly than previous leaders. In a speech in 2021, Xi noted: "Marxism is the fundamental guiding ideology upon which our Party and country are founded; it is the very soul of our Party and the banner under which it strives" (Xi 2021).

But as for the impact of Xi's socialist vision of the China Model, the devil is in the details. Two recent high-profile initiatives illustrate the point. In August 2021, Xi first called for a focus on "common prosperity," a prominent phrase from the Maoist era conveying an egalitarian ethos. Thereafter Xi often used the phrase in speeches and a widely-read article outlining the concept penned by Xi himself (Xi 2022). While some commentary has focused on Xi's pledge to "regulate excessively high income" (Xi 2022) as a likely signal of a coming left turn in China's redistributive policies, common prosperity initiatives so far have taken the form of regulatory crackdowns on the education, entertainment and tech sectors in which income equalization measures have not featured prominently. For this reason, the common prosperity is read by some scholars primarily as a foil for the deepening of power centralization trends (Sun 2022).

So too with another high-profile and controversial initiative: the dual circulation strategy. First appearing at the height of the Covid-19 pandemic, in 2020, the dual circulation strategy aims to insulate China from the worst effects of possible decoupling from the Western world by a.) boosting domestic consumption; b.) and reducing China's reliance on foreign trade with the West; and c.) creating new supply new chains and trade opportunities in the Global South, especially Belt and Road Initiative (BRI) countries. While dual circulation, like common prosperity, has been interpreted by Western observers as a “consequential policy pivot,” (Blanchette/Polk 2020) here too there is much more continuity with previous policy that is commonly appreciated. Since the late Hu Jintao period, liberal economists and policymakers alike have emphasized the need to “rebalance” an economy too dependent on investment. Thus, the core of dual circulation’s approach to self-sufficiency – encouraging Chinese consumers to spend rather than save – is neither particularly leftist nor new.

What has shifted under Xi is the state’s increasing use of coercive measures to regulate and guide markets. Chinese leaders use regulatory crackdowns and ad hoc institutional arrangements to prevent market failures, and this has become more common under Xi (Van der Kamp 2021, 2022). This arbitrary market environment increases uncertainty and corruption and provides a high degree of discretion to politicians. In this context, it is, at first sight, puzzling that with high uncertainty and weak market institutions foreign and domestic firms rushed into the Chinese market. Van der Kamp (2021, 2022)’s work speaks exactly to this puzzle and argues that in China, the markets were able to develop under certain circumstances without strong and stable regulation. The weak enforcement of regulation due to a weak infrastructural power in combination with shielding protection by high-level officials lets markets develop without much interference (Van der Kamp 2022: 19–20). Through blunt regulation and ad-hoc campaign-style regulation, China managed to stabilize key important sectors.

7 CONCLUSION

In sum, the China Model is a moving target. Since the outset of economic reform, decisionmakers have been ideologically eclectic and experimental in their approach to the development of market institutions. Over time, distinct market orders developed in three tiers of the economy with different strategic value, although the boundaries are increasingly blurry now that tech sectors occupy center stage. Even within the most rigidly-controlled of these market orders, the top tier commanding heights, market forces have expanded over time as SOEs have steadily evolved away from their command economy forms to become market-conforming and globally competitive enterprises. Under Xi, the China Model rhetoric has taken a sharp left turn but looking past this new vocabulary, one often finds significant continuity and path-dependence.

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