

A Preliminary Study of the Changing Role of the State Towards the China Model (1978 – 2023)

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Received: August 20, 2024 Accepted: September 28, 2024 Published: October 1, 2024

doi:10.5296/ber.v14i4.22175

URL: <https://doi.org/10.5296/ber.v14i4.22175>

Abstract

The article is a preliminary study of the changing role of the state towards the China Model (1978 – 2023) by tracing the economic development phases since the reform and opening-up programme and state intervention in their development agenda. The state has played many roles, notably political, social, and economic ones. However, the focus of this paper is more on the role of political-economic development. This paper is an explorative study of the main characteristics of China's economic development in the different phases and recognizes the role of the state in China's economic development through qualitative debates and analyses as an evidence of state intervention from 1978 towards the China Model in 2023.

Keywords: China Model, Chinese economic development, Outward direct investment, Reform and opening-up program state intervention

1. Introduction

In the early 1970s, China was diplomatically and economically isolated from foreign countries and simultaneously faced military threats from two superpowers - the Soviet Union and the United States. This was not surprising because until the end of the 1970s, China's economy remained a centrally planned and closed system. China embarked on a step towards economic reform and opening-up policy in 1978 by gradually shifting from a centralised economic approach to a socialist market economy under the leadership of Deng Xiaoping. Throughout the 1980s and until the mid-1990s, their economy developed into a 'Socialism with Chinese characteristics' structure and became a much more market-oriented and internationalised economy in its present state. This policy stimulated China's transformation from a poor and underdeveloped centrally planned economy into an economic powerhouse driven by the market. During the 40 years between 1978 and 2012, China's economy maintained its average annual Gross Domestic Product (GDP) growth rate of 9.6 percent surpassing the global average by a wide margin (<https://data.worldbank.org/indicator/>). China is currently the second largest economy in the world after the United States.

Historically, China has implemented a centrally planned economy since 1949 based on the Soviet model. As a result, almost all enterprises were state-owned, with every product produced to comply with the central plan, and all profits were handed over to the government. Under this approach, the central authority or the government makes economic decisions regarding the manufacturing and distribution of products. At that time, socialisation was key to China's economic policy as well as the agricultural sector. The government prioritised heavy industry, construction, transportation and military power while failing to emphasise light industry, consumer goods production, housing, agriculture and food distribution, all of which lead to poverty (Whyte, 2021, p. 118).

Mao Zedong's rural economy was characterised by collective agricultural production. The government purchased products at below-market prices. In the early stages of this centrally planned economic policy also known as the command economy implemented in the First Five-Year Plan period (1953 – 1957), it was seen that there was tremendous momentum in the development of the country when the annual GDP growth rate reached 9.2 per cent. However, the centrally planned economy was not fully formed at that time because private industry and trade co-existed with state-owned enterprises. Nationalisation activities began in 1956 and resulted in the abolition of private enterprises. Subsequently, the Second Five-Year Plan, the Great Leap Forward and the communalism movement were launched by Mao Zedong in 1958, and the Cultural Revolution launched in 1966, led to a sharp economic contraction. As a result, China's GDP fell by 32 per cent between 1960 and 1962, and then by 10 per cent between 1967 and 1968 (Wang, 2018, p. 167).

In 1975, when Deng Xiaoping re-entered the political arena, he initiated reforms in the economy by compiling a series of documents outlining four types of modernisation, namely the modernisation of the agricultural, industrial, science and technology sectors, and national

defence. He believed that the achievement of these modernisations and other related initiatives were crucial to China's economic development. However, this effort was met with opposition from radical groups, and Deng Xiaoping was eventually removed from all party and government positions. However, after the death of Mao Zedong in September 1976 and succeeded by Deng in 1978, he resumed the plan and subsequently introduced a program of economic reform namely; the Reform and Opening-up Program in the late 1978 (Chunlai Chen, 2018, p. 595). Even before Mao's death, large parts of the countryside had abandoned the planned economy and were free from the ideological constraints imposed by decades of Maoism (Healy 2018: 3). In this new reform and opening-up period, the Chinese Communist Party (CCP) continuously strived for exploring a right path in building modern socialism in China, unleashed and developed the productive forces, lifted the people out of poverty and pushed towards national transformation by providing a new and dynamic set of institutional as well as sources and infrastructures conditions for rapid development. Given China's history and the CCP's continuing role in controlling political and economic activity, state intervention in the economy was unsurprising (Beeson, 2017, p. 175).

Therefore, this paper critically analyses the role of the state in the different phases - the role of the Chinese government - in China's economic development through a qualitative analysis and provides evidence of the state intervention from 1978 - 2018. This paper also debates on how the state exerts full strategic control on China's development. The first section presents a historical development of China and the particular mechanism and actors that shaped the Chinese economy since the reform and opening-up program was introduced in 1978, focusing on several initiatives and strategies implemented by the government. The second section presents an analysis of the performance of the Chinese government with a Chinese-style developmental state also known as the China Model, meanwhile, the third section will be the conclusion of this paper.

2. China's Economic Developmental Experience and the State Intervention (1978 – 2023)

This section begins with a brief discussion of the nature of the China's state before further discussion about China's unique developmental experience and the specific factors attached to it. Of course, there are still ongoing debates about this. However, for the purpose of our discussion, what is most significant about the state is the "developmental state" as this concept has a specific element of the role of government, especially in economic development. Developmental states used to be a hot topic in international development economic research due to their effectiveness in the post-war state-building process. In addition to their impressive achievement, which led East Asian countries such as Japan, South Korea and Taiwan to become New Industrialized Countries, developmental states have a unique character; they are simultaneously authoritarian but at the same time developmental in character. This indicates that authoritarian regimes may not always be predatory, but also can be beneficent and prioritise economic development (Johnson 1982; Daud 2020). Woo-Cummings (1999) is among fierce critics of the developmental state, motivated by desire for economic advancement, intervenes in industrial affairs. Critics charge that Japan's success in putting this notion into practice has not been replicated elsewhere, that the concept

threatens the purity of freemarket economics, and that its shortcomings have led to financial turmoil in the Asian crisis in 1997. Drawing on new political and economic theories and emphasizing recent events, the East Asian experience exemplified by the developmental state involves a combination of political, bureaucratic, and moneyed influences that shape economic life in the region. Taking as its point of departure Chalmers Johnson's account of the Japanese developmental state, the book explores the interplay of forces that have determined the structure of opportunity in the region to address the argument for centralized political involvement in industrial development, describe the historical impact of colonialism and the Cold War, consider new ideas in economics, and compare the experiences of East Asian countries with those of France, Brazil, Mexico, and India (Woo-Cummings, 1999).

The state plays many roles in political, social, and economic. The focus of this paper is on the economic role and in the pursuit of this role, the state utilizes many policy instruments to allocate resources, redistribute income and influence the level of economic activity. Classical economists such as Adam Smith favoured a minimal role of the state as a reaction to the widespread interference of government with the working of the market in 18th-century Europe. This group believed that the interference would be damaging to economic activities and an obstacle to growth. As a consequence of this experience, the economic role of the government in the 19th century became much more limited. However, the 20th century saw a gradual expansion of the role of the state in the economy. Marxists and socialists who emphasised income equality among individuals developed strong pressures on the governments to play a significant role in redistributing income. Furthermore, Keynesian thinking created pressure on the government to disposable income individuals during fluctuation to stabilise the economy. This Keynesian thinking was used to justify an expansion of the role of the state in the economy. This is also against the neoliberal theory which this group describe the relative importance of the free-market system and rejecting domestic state strategies in managing economic development (Daud, 2020).

However, according to Embong (2003) and Abdullah et.al. (2020) developing countries still have the autonomy to deal with neoliberals in describing globalisation while pursuing their development agenda under certain conditions. In this case, the states can adopt the developmental state model, which involves state intervention in the economy to promote economic growth and development. To accomplish this, states must have their own policy space and autonomy to make economic decisions without being influenced and dominated by outside forces. Daud (2020) refers to the 'State' as a group of powerful elites or governments that intervene in the economy to influence the process through policies and regulations. This group of powerful elites usually make policy plans which are then implemented by the government system which consists of government officials to achieve national interests. Meanwhile, the concept of the developmental state model pioneered by Chalmers Johnson (1982) is related to the main role played by the government in promoting industrialisation in Japan and East Asian countries after World War II. This model emphasizes the relative autonomy factor of the country with selective intervention and the government pursued a series of policies including tariff protection, subsidies and various types of control in economic activities to achieve national development goals (Caldentey, 2008).

For this study, we analysed how state intervention in China's economic development can lead the country to become a major power in the world economy today. Therefore, this study highlights the state's intervention in China's economic development in phases from 1978 until 2023. China's economic transformation over the past four decades has been remarkable. Since reform and opening-up program were implemented in 1978, it has experienced sustained economic development. This remarkable economic process can be attributed to the strategic intervention of the state, which played a pivotal role in shaping China's economic trajectory.

2.1 Early Reform (1978 – 1984)

Mao's legacy that triggered major domestic crises such as the Anti-Rightist Movement (1957 - 1959), the Great Leap Forward (1958 - 1961), and the Cultural Revolution (1966 - 1976) had a devastating impact on Chinese history. These crises led Deng Xiaoping to be determined to reform China through economic development and be able to bring China to the world. Following decades of extreme political repression during the Cultural Revolution, Deng Xiaoping took a pragmatic approach to reform and introduced the "cat theory" in promoting the introduction of a market economy. He once remarked "It doesn't matter whether a cat is black or white, as long as it catches mice", this served as a command to embark on a frantic rush for riches, as well as implicit consent to abandon Maoist ideologies. Deng Xiaoping, also known as a great pragmatist, saw the profit motive as a reality of human nature rather than an alternative theory to Marxism. His leadership pioneered "socialism with Chinese characteristics", demonstrating an ability to reconcile paradoxes in China's ideological dogma, and helping to transform a command-and-control economy into a dynamic and hybrid-market-based economy (Healy, 2018, p. 3). As a result, the following decades were full of policy implementations and experiments that yielded unprecedented results in terms of growth, eradicating poverty, and infrastructure development.

The Third Plenary Session of the 11th Central Committee of the Chinese Communist Party in December 1978 witnessed a turning point in China's economic development history. This Plenary Session marked the beginning of the economic reform and liberalization or the reform and opening-up and set China on the course for nationwide economic reforms. The government began to pursue an open-door policy to rebuild China's economy and society which were devastated by the Cultural Revolution. The country was poor, overpopulated, and suffering from the shortage of human and natural resources. Important decisions were made during the session on issues such as economic adjustment, economic governance reform, agricultural development promotion, and improving people's well-being. In his speech at the closing session, Deng Xiaoping urged the Party members to seek truth from fact instead of ideology and move forward in unity (http://www.china.org.cn/m/english/china_key_words/2021-08/10/content_77684658.html).

Through the reform and opening-up programme, China successfully created a pragmatic development path to transform the economy. However, by taking into consideration China's existing condition is still in the primary stage of socialism, the Party's new guiding framework was formulated as one of the innovative policies on socialist development to put

China on track to build socialism with Chinese characteristics through the process of reform and opening-up.

During that period, in terms of politics, China began to move from a totalitarian system to an authoritarian government. The CCP still dominates the political system, but local elections have been established to determine the political hierarchy. In terms of the economic system, China moved from a centrally planned economy to a more market-oriented economic system and began to participate in the international community. In line with China's open-door policy pragmatically, the Party's control over people's economic, social, cultural, and personal lives has also been reduced (Goldman, 2013, p. 135 - 136). As a result, China's economy began to develop and become market-oriented starting in 1978 under the CCP led by Deng Xiaoping. When the People's Republic of China was formed in 1949, the country was one of the poorest countries in the world, with a large population and a backward economy. China's per capita income at that time was only RMB66 (USD 9.6). In 1978, China's GDP was US\$149.54 billion (11.3 per cent) and placed China in the 10th position among the world's major countries and China's growth performance was the best among developing and low-income countries.

2.2 Industrialization and Export-led Growth (1985-2000)

China's remarkable economic transformation during this period was characterized by a strategic shift towards export-led growth, which fuelled its rapid industrialization and emergence as a global manufacturing powerhouse also known as the "factory of the world". In the first decade between 1979 and 1990, the growth rate of GDP was very positive with an average rate of 9.6 percent per year (<https://data.worldbank.org/>). After the reform and opening-up, China started the active introduction of foreign capital and technology while maintaining its commitment to socialism and managed to achieve a growth rate above 9 percent per year for almost 30 years. In the second half of the reform era, state intervention was evident in the restructuring of public finance, State-owned Enterprises (SOEs) and state banks in the mid-1990s. Public finance took the lead in massive infrastructure investment and investment in industrial upgrading which led to a capital expansion, and investment-led industrialization, mostly carried by SOEs and transnational corporations (TNCs) in high-tech industries - especially in automobile, semiconductor, and high-speed railway.

The government also established several areas for foreign investment, including special economic zones, open coastal cities, and the high-tech industry development zone. All these zones triggered massive inflows of foreign investment mostly from Hong Kong and Taiwan firms. During this period, people's standard of living also improved and the government successfully lifted about 400 million people out of poverty. Based on the World Bank standards, China with a total population of 1.3 billion at that time changed from a low-income country to a middle-income country after the reform and opening-up program. China's economic growth (9.6 per cent) surpassed the average annual GDP growth of Japan (9.2 per cent) and South Korea (8.5 per cent) at the economic take-off stage, which is a miracle in the history of the industrialized world. Therefore, China's economic development achievement is considered the most successful industrialization process in the history of

industrialization.

However, although China enjoyed a decent growth in the 1980s, implementing radical market-based reforms into the economy, a combination of political crisis and corruption led to China's political reforms in 1989 to the Tiananmen Square incident or June 4th massacres, in which crack troops from the People's Liberation Army (PLA) had entered Tiananmen Square after several weeks of student protest and killed hundreds of demonstrators. The remarkable economic growth from reform and opening-up had been exposed the Chinese people to foreign ideas and accompanied by inflation and corruption by the government officials. The massive inflow of investment and the dual price system – some prices were set by the government and others determined by market forces led to rising inflation, from 7.2 percent in 1987 to over 18 percent in 1989. It was a period of uncertainty that China's exports fell, and the economy was severely affected.

At that time, the collapse of Stalinism in Eastern Europe, followed by the Soviet Union in 1991 occurred. Deng Xiaoping worried if China's economy did not develop fast enough, the CCP would also collapse like the Soviet Union. During the economic lethargy in 1992, Deng Xiaoping as a retired person embarked Southern Tour, to the Special Economic Zones (SEZs) of Zhuhai, Shenzhen, and Guangzhou that he had set up in the early 1980s. The Southern Tour took place at a difficult time in China in terms of economy, politics and social, and because he was unhappy about the speed and overall direction of reform at that time. The purpose of this tour was to rally support among the local CCP officials. Therefore, this Southern Tour, also known as the final large project of his political career, is highly recognized as a turning point in Chinese modern history since it saved China's economic reform and the capital market while preserving social and political stability (Brown, K., 2009). Since then, the CCP followed the path of state capitalism without major controversy.

2.3 Global Integration and High-Tech Focus (2001-2015)

In the early 2000s, China's economy underwent a fundamental transformation as the CCP leadership recognised the importance of further integration with the global economy and developing a strong domestic high-tech industry to drive long-term growth and competitiveness. This shift was catalysed by China's accession to the World Trade Organization (WTO) in 2001, which had significant implications for its economic growth, domestic reforms, and integration into the global economy. Since joining the WTO, China's exports have steadily increased. In 2022, the total import and export values of goods in China reached RMB42.07 trillion, with exports accounting for nearly 15 percent of the global market share (Xiaobo & Dong, 2023). This remarked the opening-up policy also improved market-oriented reforms, and China's economy transitioned from a domestic consumption-driven to an export-oriented economy.

In this phase, China's economy was dominated by the heavy and chemical industries. Electric power, iron and steel, machinery and equipment, automobiles, shipbuilding, chemicals, and electronics become the main primary forces of national economic growth. These industries were encouraged to be established abroad. The state intervenes and encourages the enterprises involved to go abroad by providing financial aid, reducing customs duties and

assistance in the purchase of currency to increase Chinese exports. The role of the state also changed from being responsible for the approval of the project to becoming the supplier of information and assistance services and promoter of incentives and administrative procedures. The Chinese government believes in facing the challenges of the international market, reputation, creation of trademarks, innovations and high technology become strategic factors.

Meanwhile, Xi Jinping who was elected as the President of China on 14 March 2013, stated at the Third Plenary Session of the 18th Central Committee of the CCP held in November 2013 that China would carry out an economic restructuring to establish a proper relationship between the government and the market and let the market to play a decisive role in the allocation of resource and for the government to play a better role. This plenum also promotes socialism with Chinese Characteristics and follows the guidance of Marxism-Leninism, and Mao Zedong Thought, utilizing the Deng Xiaoping Theory, the important thought of the Three Represents and the Scientific Outlook on development to deepen the reform comprehensively (http://www.china.org.cn/china/third_plenary_session/201401/). Despite the plenum pointing out the focus of continuing the reform comprehensively, the underlying challenge is how to balance the roles of the market and the government so that the market can allocate resources decisively and the government perform its function effectively. In this case, the market and the government should complement and coordinate each other to promote sustained economic development.

To meet the challenge, Xi Jinping has articulated a broad vision for China including both domestic and international aspects to fulfil the “China Dream”. Following the Party’s speeches, the China Dream involves national rejuvenation, building a nation of prosperity, and ethnic harmony and strengthening the influence at the international level. More precisely, Xi Jinping has opted to confront his domestic challenges with a commitment to implement market-oriented reforms that modify the export and investment-driven model that anchored China’s growth. Simultaneously, to deal with the tremendous challenges that the economic reform programme would bring, Xi Jinping has strengthened the role of the CCP as a tool of governance in an authoritarian market-oriented system. In short, among the priorities of this China Dream by Xi Jinping is to maintain the CCP’s control over the political system, to improve the people's standard of living and to participate in world affairs through the “China Model” of economic development.

2.4 Transition to Innovation and Consumption (2016 – 2023)

The miracle of China’s opening-up has continued rapid growth even in an increasingly complex and challenging path, managed to maintain this country as the world’s second largest economic power. As China opens wider to the world, it has become the largest trader of goods and a major outward investor, transitioning China towards a more innovation-led economy with a focus on high technology and manufacturing. National People’s Congress in March 2016 ratified the 13th Five-Year Plan (2016 – 2020), which emphasises the ruling Party’s new concept, with innovation and productivity as drivers of growth. The Plan also translate the state’s new drivers of China’s economy from large-scale infrastructure

investment and export-led growth towards greater domestic consumption. In short, this Plan seeks to address China's unbalanced, uncoordinated, and unsustainable growth and create a moderately prosperous society through innovative, open, green, coordinated, and inclusive growth. It restates the Chinese government's commitment to rebalancing the economy by focusing on higher-value-added manufacturing and domestic consumption (National People's Congress of China, Issue 1, 2016).

In this new reform era, China aims to utilize innovation to advance manufacturing up the value-added chain and promote China as a global centre of innovation and technology. Therefore, "Made in China 2025" and "Internet Plus" initiatives were introduced to grow domestic capability in emerging industries such as advanced machine tools, robots, new energy vehicles, biomedicine equipment, cloud computing, artificial intelligence, Internet of Things, and e-commerce. To develop technologies and firms in these industries, the government directs significant financial resources through government-controlled venture capital. In 2016, the state Council approved almost RMB200 billion in government-controlled venture capital funds to invest in innovative technology and industrial upgrades to boost the efficiency of SOEs. In addition, the state also played an important role in expanding public services such as healthcare and education, boosting domestic consumption, improve the quality of life of Chinese people.

In 2020, China emerged as the largest consumer market surpassing the United States with consumption spending representing 31 percent of global household consumption from 2010 to 2017. It was highlighted that China's experience of structural transformation shifted towards a consumer-oriented society without abandoning its export-oriented market (Javed, S.A. et al., 2021). However, some global uncertainties, since the 2008 financial crisis, counter-globalization from the West, and the COVID-19 outbreak, the global economy has experienced a significant recession, which has led to a reduction in international trade and investment. As a measure to deal with this global uncertainty and its impact, Xi Jinping's administration introduced a new paradigm called the "Dual Circulation Strategy" (DCS) in May 2020, which focuses on managing China's interdependence with the world by emphasizing indigenous innovation and technological self-reliance and boosting a large China's domestic demand market. Even though some (especially the West) may view this strategy as an attempt at China's turning inward, on the contrary, it involves "domestic and international development complementing each other" (Javed, S.A. et al., 2021). This DCS is not a completely new model for China's economic development, but a refinement of the existing approach to guarantee that China's economy can heighten global uncertainty and able to survive as a global economic powerhouse until today.

In summary, based on the four (4) phases above, we found that China's economic development path and the state intervention in economic development have undergone significant transformations over the centuries, from Mao's legacy to reform and the modern economic era. Based on our analysis, Figure 1 illustrates these different phases, highlighting the key characteristics of each phase and their impact on China's political, social, and economic development. It illustrates China's journey from a centrally planned economy to a dynamic and globally integrated market economy.

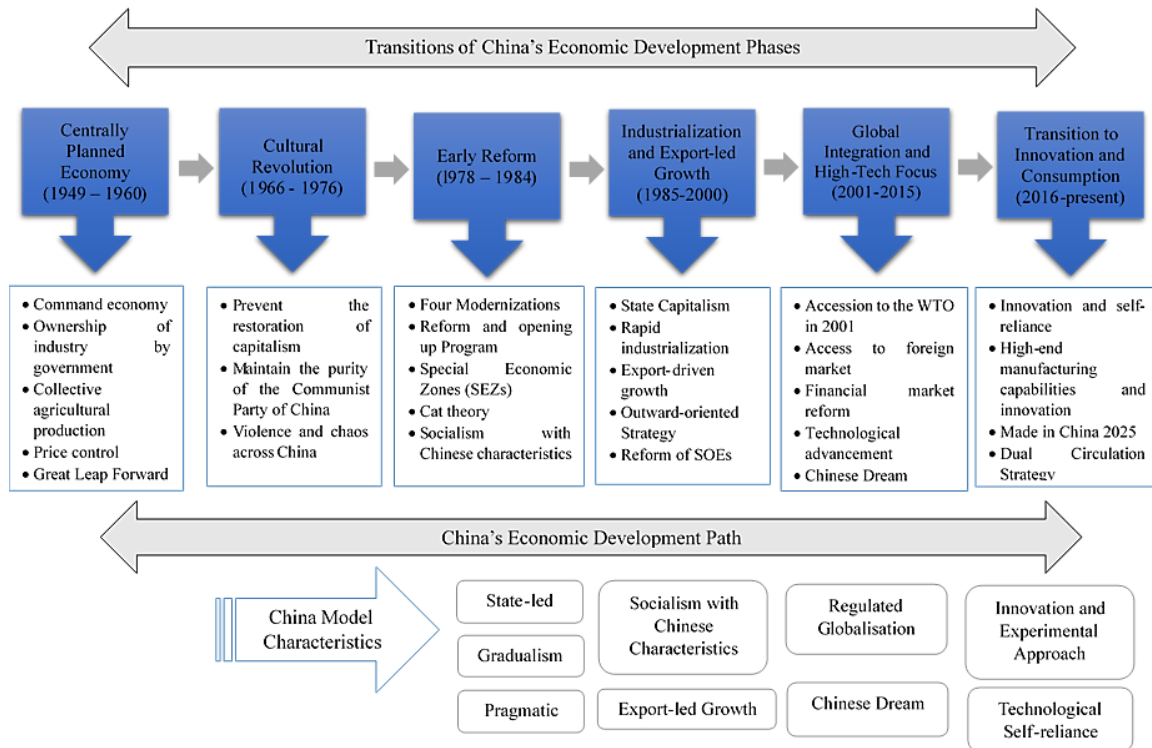


Figure 1. Transitions of China's Economic Development Phases and the Characteristics of China Model

Source: Author's Analysis

By understanding these shifts, we can gain insights into the complexities of the Chinese state and its role in its economic development and the global landscape. The distinctive development path as a fast track to economic growth led to the discussion of the new momentum of the China Model.

3. The China Model Discourses

What is China Model? The term China Model was initially used by scholars and the foreign media to describe China's political-economic development approach, which evolved rapidly from the 1990s until the 21st century. This term later gained significance among Chinese scholars when Joshua Cooper Ramo introduced the Beijing Consensus in his paper entitled The Beijing Consensus, published in 2004. In his paper, Ramo argues that China's economic experience is seen as an alternative to the Washington Consensus introduced by John Williamson in 1989, which is a market-friendly policy promoted by the World Bank, the International Monetary Fund (IMF) and the United State Treasury guide other countries, especially developing countries in terms of economic development. Scholars such as Pan Wei (2007), Naughton (2010), Ji Baocheng (2011), So (2021, 2014) and Ming Wan (2014) analysed the China Model as a difficult model to explain and a hybrid model that combines opposite elements in China's economic and political system under the authoritarian rule of the CCP. Meanwhile, Ming (2014) described the China Model as a complex model,

consisting of various layers and dimensions, and processes that are still developing (Ming, 2014, Yahya et al., 2020). Furthermore, according to Yahya, Daud and Mohd Huda (2020), this China Model is interesting because of its adaptability based on the current situation or a problem faced by China by virtue of its characteristics. As a result, the discourse regarding the China Model as an economic development model is still relevant and necessary.

The experience of economic development and the rise of China's economic power has sparked a heated debate, based on three (3) waves that occurred since the early 2000s, which focused on the role of the state as the driving force leading towards China's modernisation (Suisheng Zhao, 2017, World Bank Data). The first wave began after the publication of the 'Beijing Consensus' by Ramo in 2004 to refer to the political and economic policy approach in China that has contributed to the positive economic growth of their economy. Ramo explained that China had found a unique modernisation path through a willingness to innovate, make the quality of life in line with economic growth, provide equality and refuse to allow Western powers to take advantage of their agenda on China (Ramo, 2004, Suisheng Zhao, 2017). Ramo assessed China's economic development strategy as an alternative to the Washington Consensus - a development model introduced by John Williamson in 1989, which is a market-friendly policy promoted by the World Bank, the International Monetary Fund (IMF) and the US Treasury to guide other countries, especially developing countries (So, 2012). Ramo emphasised three main principles of the development model implemented by China in the Beijing Consensus, namely innovation, sustainability, and equitable development. Since Ramo argued for the Beijing Consensus in 2004, China's development model better known as the China Model has drawn attention worldwide. Since then, the China Model began to be recognized and accepted in the global economy, and some other developing countries also accept this model as a general framework and universal model that may be used in other countries.

The second wave of the debate about the China Model started to stand out and draw attention from all over the world during and after the outbreak of the financial and economic crisis caused by the US in 2007 - 2008. At that time, China not only impressed the world with the successful hosting of the Olympic Games but also the efficiency of its government in dealing with the crisis and managed to overcome the 2008/2009 global financial crisis better than other Western countries. As a result, the China Model became a popular term and is also known as a 'discourse of greatness' which is also interpreted in various other terms such as China in flourishing, the China path, the China miracle, the China pace, the China experience, and the rise of China (Susiheng Zhao, 2017, p. 3). The year also marks the 30th anniversary of economic reform and liberalization as well as the 60th anniversary of the People's Republic of China. One of the conferences held in conjunction with the celebration of these two anniversaries produced a book on the China Model, which presents state-led economic development, including state control over land and raw materials as factors of production; large-scale state-controlled financial and industrial sectors; and free market on labour, assets, and commodities. Due to the achievement of rapid economic growth coupled with political stability over 30 years, China is confident about its unique development and modernisation model.

Next, the third wave of the debate is clearly seen to have sparked after President Xi Jinping was elected as the president of the PRC by the National People's Congress (NPC) in March 2013. In November 2012, Xi Jinping introduced the China Dream as a new concept for China as a great rejuvenation of the Chinese nation. In his speech during the closing meeting of the first session of the 12th National People's Congress, Xi Jinping urged the Party to work in a persistent effort, with unwavering determination, continue to push forward the great cause of socialism with Chinese characteristics, and strive to achieve the China Dream of the great rejuvenation of the nation (<https://www.chinadaily.com.cn/>). In short, this China Dream is for the people. This concept envisions a great renewal of the Chinese nation as well as the improvement of an international system in which China's successful rise provides not only a political model but also an impressive alternative economic model to Western ones. In April 2014, he stated that China's uniqueness in terms of cultural traditions, history and domestic situation determines that China should implement development in accordance with Chinese characteristics. It is demonstrated that due to China's uniqueness, the Western development model is not able to assist China in achieving China Dream (Suisheng Zhou, 2017, p. 5). Xi Jinping clearly expresses his confidence in China's ability to become an alternative to the Western neoliberal model in the emerging world that China will lead in the coming decades.

After all, the many sides of the debate agree on one point - the China Model is one of authoritarian capitalism or in China's experience better known as capitalism with Chinese characteristics. This is due to the characteristics of this China Model which are: the coexistence of economic modernisation with non-democratic politics; state control of the economy; top-down economic management; and gradual and incremental of reform process (Lo & Shevtsova, 2021, p. 33). For Xi Jinping and the Chinese government, the China Model is not simply a product of rapid economic growth from years of economic reform, but also the ongoing quest for power and prosperity in China led by the CCP. The China Model operates on the principle that stability is necessary for development. Therefore, consolidating political power is crucial and forms the foundation of all progress (Lo & Shevtsova, 2021, p. 33).

3.1 The China Model

3.1.1 China Outward Direct Investment (ODI)

China used to be one of the largest recipient countries of Foreign Direct Investment (FDI) during the early era of economic reform. However, following significant economic growth, China became the world's most important investor through ODI. In the beginning, China's ODI was relatively small compared to the large inflow of investment, however, Chinese firms operating abroad transformed and became increasingly important as a source of new international capital. Since its inception, Chinese ODI has been initiated or approved by the state, which still retains a great measure of control. The government has selected certain strategic industries for overseas expansion and has chosen the markets where this expansion should take place. This heavy government involvement, largely through state-owned companies, ensured that foreign investments would align with the country's long-term development strategies. The government's push for the development of national industry

champions and the procurement of overseas natural resources underpins a broader agenda of economic nationalism focused on energy security, geopolitics, and competitiveness.

With strong state intervention, China's ODI flow increased dramatically from US\$2.86 billion in 2002 to US\$68.8 billion in 2010, a 20-fold increase in eight years. In 2009, China was not only the largest investor among developing countries but also the fifth largest investor in the world behind the US, France, Japan, and Germany. According to statistics released by the Chinese Ministry of Commerce, in 2014, Chinese companies invested a total of US\$116 billion in 156 different countries. This amount is more than 45 times higher compared to the investment made in 2002. In 2015, China's ODI surpassed the total FDI received due to investment in corporate mergers, acquisitions and start-ups that continue to grow to US\$2 trillion by 2020 (<http://thediplomat.com/2016/05/is-china-a-global-force-for-good/>).

The integration of China's economy with the international economy is a result of the state's commitment to market-based economic reforms. The changes are continuous and rapid. In line with the China Model that emphasizes state intervention in economics, the state also plays a major role in the expansion of ODI abroad. China State-owned Enterprises (SOEs) are the driving force behind the expansion of China's ODI, because of the growth of China-style ODI. This approach focuses on boosting domestic production while enhancing the competitiveness of investment firms. Furthermore, the expansion of investment by the private sector is also an important issue in the development of China's ODI. Private parties including small and medium enterprises (SMEs) can easily enter foreign markets through ODI if they have low financial constraints with repressive financial system restructuring and capital controls.

3.1.2 Going Out Strategy

The Going Out Strategy (also known as the Going Global Strategy or Zhou Chu Qu) was first introduced in 1999 by the Ministry of Commerce of China and National Development and Reform (NDRC). This strategy began to be implemented after 2000 as a government effort to promote China's ODI and encourage the exploration of natural resources to address the issue of domestic resources shortage while promoting exports. In this regard, the Chinese government provided support including provision of information, guidance and training, administrative support, investment facilitation and financial assistance. The government has implemented several policies and supporting measures to encourage companies to explore and invest globally. Major Chinese policy banks such as the China Development Bank and the China Export and Import Bank, as well as commercial banks such as the Chinese Construction Bank and the Chinese Industry and Commerce Bank, have established operations across the world (Jing Gu et al., 2016). In 2009, Premier Wen Jiabao, who was in office at that time said: "We should hasten the implementation of our "going out" strategy and combine the utilisation of foreign exchange reserve with the "going out" of our enterprises" (The Economist, 2009). The Going Out Strategy promoted Chinese investment abroad and was part of China's proactive diplomacy. This strategy became part of the Five-Year Plan for National Economy and Social Development in 2001 and is designed to

encourage and support firms to comparative advantage to invest overseas. It is also designed to meet the challenges of over-capacity in production within the Chinese economy and to strengthen processes of industrial structural adjustment (Shambaugh, D., 2013).

By the Third Plenum of the 18th Congress in November 2013, the CCP's policy was that China should encourage firms and individuals to invest abroad and try their best to pursue international corporations. The CCP also encourage land investment, merger investment and joint investment abroad. However, not all companies are encouraged to go out. Only those firms that met certain criteria were encouraged. In this case, the Going Out strategy involves a variety of practical initiatives to encourage outbound and inbound investment, including financial assistance and information dissemination. The Chinese government also promotes a various kind of state-sponsored incentives for Chinese private investment, including special and general tax incentives, credit and loans, and a favourable import and export environment. However, many of them are generally a symbolic and supportive character, and they do not amount to huge financial sums (Xinhua, 2013). As the private sector has emerged as the engine of China's economic growth and has a flexible character compared to the state-owned enterprise, the strategy has undergone a minor adjustment and now pays more attention to the private sector's expansion worldwide.

The government, together with the China Council for the Promotion of International Trade (CCPIT) under the Ministry of Commerce has introduced several initiatives to assist local firms in developing an international strategy to take advantage of opportunities in expanding domestic and global markets. As Chinese President Xi Jinping addressed at the conference of the 70th anniversary of the CCPIT and the Global Trade and Investment Promotion Summit 2022, the CCPIT has been playing an important role in the Going Out strategy by strengthening the bond of interest between Chinese firms and foreign businesses, promoting international economic and trade exchanges, and facilitating state-to-state relations. The Council has also worked to promote trade and investment as well as advance China's opening-up policy (<https://en.ccpit.org/infoById/2947b652d72311ecb76d0242ac130002/2>).

With the implementation of this Going Out strategy, China has evolved from being a marginal Outward Foreign Direct Investment (OFDI) to becoming an important source country among developing countries such as Southeast Asian countries and African Countries in the past forty years. During the 1980s, China's overseas investment flows experienced a rapid rise but failed to surpass US\$1 billion. Although they almost tripled during the 1990s, they still only represented a small portion of the global overseas investment flows. Despite the increase, China has tremendous potential for further growth in the international investment market. As a result, Chinese OFDI flows have been growing steadily since 2002 and have reached approximately US\$16 billion. It seems like the reforms of the regulatory and political system may have contributed to this increase (Xue Q. & Han B., 2010). The government's effort to improve the ODI development promotion system has facilitated the implementation of China's Going Out strategy that accelerates China's modernisation process and the long-term achievement of socioeconomic development.

3.1.3 State-Owned Enterprises (SOEs)

The role of state-owned enterprises (SOEs) in modern economic development is important but highly debated. As one of the emerging economies, China's rapid growth during the past 40 years has involved to a large extent the use of SOEs. The Chinese government has largely relied on a strategy that seeks to create internationally competitive corporations over which the state seeks to maintain control. This strategy seeks to reap the benefits of commercialization such as efficiency, productivity, innovation, economic strength, and so on while maintaining the stability of security that comes from state control (William J. N., 2016, p. 69). So, there is no doubt that the SOEs play a crucial role in China's economic development since the reform and opening-up in sustaining excessive capital inflows and in explaining the fundamental reforms including capital accumulation strategies, the improvement of corporate governance and competitive pressures. Government interventions in the market can assist the economy by maximizing resource mobility and promoting capital-intensive industries.

As Xi Jinping announced in 2016 that SOEs should become stronger, better, and bigger, the CCP updated its constitution in 2017 to assert that the Party plays a leadership role in making decisions. As a result, in the 2021 Fortune Global 500 List, a total of 82 Chinese SOEs were included, 49 of them were central SOEs and their subsidiaries and 33 others were local SOEs. Among them, State Grid (No.2), China National Petroleum (No.4), Sinopec Group (No.5) and China State Construction Engineering (No.13) were in the top 20 ranks. According to the state-owned Assets Supervision and Administration Commission of the State Council (SASAC), the assets of Chinese SOEs reached RMB1.4 trillion (about USD217 billion) in 2020 despite the COVID-19 pandemic (http://en.sasac.gov.cn/2021/08/03/c_7528.htm).

Traditionally, SOEs are not designed to maximise profits, but to fulfil social responsibilities for the state, such as maintaining social stability, reducing unemployment, and promoting the government's social goals (Lin, K.J. et al., 2020). Despite criticism, the CCP believes that only the SOEs can fulfil social responsibility to the people since the private sectors is more profit oriented. For example, China has many remote villages, but at the same time, the government insists that no one can be left behind. Therefore, in this case, some scholars suggest SOEs have an important role because they have the capacity and support to build public and basic infrastructure in line with the needs of the government and the people.

4. Discussions

China's economic development process is well described as 'crossing the river by feeling the stone'. The crossing was gradual, exploratory, pragmatic and path dependent. It has been a process of evolution and gradualism rather than the implementation of a radical reform or 'big bang' plan. The government brought about the most extensive and profound social change in Chinese history and a great transformation from a poor and backward country with a large population to a socialist country with its characteristics. Characterised by a unique state-led capitalism, and rapid urbanisation, the China Model has delivered remarkable economic results over the past 40 years. China was gradually transformed from a centrally planned to a market economy since 1978, and in the 40 years, China has maintained an

average annual growth rate at 9.6 per cent (<https://data.worldbank.org/indicator/>). However, as China must deal with new challenges and uncertainties in the global economy, can the China Model sustain its success for another 20 years?

The discussion about whether China's government under Xi Jinping intends to export its China Model persists. One of the reasons for this ongoing debate is the lack of a clear definition of what the model entails. The China Model is more complex and confusing than "authoritarian capitalism" suggests. It is full of ambiguities, and contradictions and not offering a clear-cut recipe for modernisation (Lo & Shevtsova, 2021, p. 33 - 33). Based on this study, we analyse that the China Model emphasizes the active role of the state in planning and guiding the direction of the China's economic development. Generally, the state guide and control the economy through Five Year Plan planning, ownership of strategic sectors, fiscal and monetary policy, financial control, and development in technology and innovation. China's economic development experience highlighted the important role of the state as a development actor with Chinese characteristics without relying on the principles of liberalism. However, some opinions argue that China will face a period of economic stagnation. According to classical liberalism, economic prosperity cannot be maintained unless there is also democratization and the rule of law. Therefore, to become a truly advanced and innovative country in the post-industrial world, China needs to surrender its monopoly on power, which does not seem to be an easy prospect.

The appeal of the contemporary China Model has certainly increased after the world financial and economic crisis triggered by the US in 2008. The so-called political analysts were once again turning their attention to what is known as the Beijing Consensus. They began to argue that the developing countries should develop their economies gradually while retaining a significant amount of their assets in the hand of the state and should be prepared for political and cultural changes with well-prepared market reform, as China did. This argument contradicts the Washington Consensus, that poor and developing countries should quickly privatise SOEs, promote free market principles at any cost, deregulate the economy and control public spending. China has provided references which may or may not be used by other countries.

However, the uniqueness of the China Model in economics development, which combines state-led capitalism with an authoritarian political system is also not free from facing significant challenges moving forward. China's investment-led and export-oriented economic development approach are dealing with numerous challenges in the 21st century, including rising labour cost, income inequality, low domestic consumption and environmental damage. China as a world's factory facing the biggest challenges on rising domestic labour cost and this led China to compete with other emerging manufacturing economies such as India and Vietnam whose labour cost are lower. Furthermore, structural challenges such as ageing population and low productivity growth also influences domestic consumption. Domestic consumption is insufficient to compensate for slowdown in growth, while external demand is declining due to international price fluctuation and global geopolitical tension. Finally, rapid industrialization also causes an environmental crisis not only threatens to the more than 1.4 billion people of the country but also the global to fight against climate change. China, the

world's largest greenhouse gas emitter faces air pollution, water scarcity, and climate change-related flooding and drought in coming decades (Council on Foreign Relations, May 19, 2021).

The China Model may still have flaws; however, this model has provided a choice of development path to other countries, especially developing countries and this path of development is formed without the need for war or conflict. Furthermore, socialism with Chinese characteristics is the only path to achieve modernisation and appropriate theory to guide the government and people towards national rejuvenation. The most important characteristic of China's economic development is the pragmatism to adopt different policies at different phases of economic development. The system of socialism with Chinese characteristics provides the fundamental institutional guarantee for progress and development in contemporary China.

The essential meaning of the China Dream phrase is that China should maintain the extraordinary economic development successes of recent decades so that the country can eventually become, at the very least, a moderately prosperous society, and, at the very most, resume its rightful position as the richest country in the world, surpassing the United States, Japan, and advanced European countries. China's development of special characteristics - gradualism, innovation and experimental approach, regulated globalisation and export-led growth, and a strong state has allowed a sequence of reform in China's economic development, making China's experience a success story. In general, China's economy has the basic characteristics of sufficient potential, strong resilience, large room for manoeuvre, many policy tools and support from the state, and the capacity of an industrial chain to sustain its economic growth. However, to sustain its success story, China needs to embrace reforms that promote high innovation, sustainable growth and adopt a more flexible and dynamic market-oriented approach. If China re-reform its economy with socialism with Chinese characteristic in the new era, the IMF predict that China's economy could develop even faster, amounting about 20 per cent increase of the real GDP in the next 15 years (CGTN, June 2024).

5. Conclusion

As Napoleon Bonaparte said in the 19th century, "China is a sleeping giant. Let her sleep, for when she awakens, she will move the world", and this is proven when China is now rising as one of the world's economic powers. China has been a socialist country since 1949, and for nearly all that time, the government has played a predominant role in the economy. China's strong development and productivity growth spurred by 1978 market-oriented reforms and strong intervention by the state, led China to unprecedented economic performance in 40 years of development. Although China occupies a unique niche in the world's political economy-its vast populace and large physical size alone mark it as a powerful global presence-it is still possible to look at the Chinese experience and draw some general lessons for other developing countries. Most importantly, while capital investment is crucial to growth, it becomes even more potent when accompanied by market-oriented reforms that introduce profit incentives to rural enterprises and small private businesses. That combination

can unleash a productivity boom that will propel aggregate growth. For countries with a large segment of the population underemployed in agriculture, the Chinese example may be particularly instructive. By encouraging the growth of rural enterprises and not focusing exclusively on the urban industrial sector, China has successfully moved millions of workers off farms and into factories without creating an urban crisis. Finally, China's open-door policy has spurred foreign direct investment in the country, creating still more jobs and linking the Chinese economy with international markets.

Acknowledgments

The authors express their appreciation and thanks to the Faculty of Social Sciences and Humanities, National University of Malaysia for research grant TAP K006263 and International Journal of Social Science Research, Macrothink Institute who helped and accepted the publication of this article.

Authors contributions

Mohd Ikbal Mohd Huda was responsible for study design and revising. Siti Hasmah Yahya was responsible for data collection and drafted the manuscript and Sity Daud revised it. All authors read and approved the final manuscript, as well as contributed equally to the study.

Funding

This research received no specific financial support.

Competing interests

The authors have no competing interest to declare.

Informed consent

Obtained.

Ethics approval

The Publication Ethics Committee of the Macrothink Institute. The journal's policies adhere to the Core Practices established by the Committee on Publication Ethics (COPE).

Provenance and peer review

Not commissioned, externally double-blind peer reviewed.

Data availability statement

The data that support the findings of this study are available on request from the corresponding author. The data is not publicly available due to privacy or ethical restrictions.

Data sharing statement

No additional data is available.

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Notes

Note 1. The new guiding framework was “one central task and two basic points” which economic development identified as the “central task” and the “two basic points” being a commitment to the Four Cardinal Principles – socialism, the people’s democratic dictatorship, leadership by the CCP, and Marxism-Leninism and Mao Zedong Thought, and the commitment to reform and opening-up.

(http://www.china.org.cn/m/english/china_key_words/2021-08/10/content_77684658.html)