



**China-CEE Institute**  
**中国—中东欧研究院**

ISSN 2786-2860

Vol. 2 No. 29

July 2022

# CHINA WATCH

## **China's Development Miracle and Development Economics**

**LIU Shouying**

Kiadó: Kína-KKE Intézet Nonprofit Kft.  
Szerkesztésért felelős személy: Chen Xin  
Kiadásért felelős személy: Feng Zhongping

1052 Budapest Petőfi Sándor utca 11.  
E-mail: [office@china-cee.eu](mailto:office@china-cee.eu)

# China's Development Miracle and Development Economics

LIU Shouying<sup>1</sup>

Professor, School of Economics, Renmin University of China

## Abstract

Since the founding of the People's Republic of China, the long-suffering Chinese nation has made giant leaps—it stood up, became rich, became strong, and achieved the miracle of rapid economic development and long-term social stability. China's development miracle was not achieved under the guidance of the existing theories of development economics, nor are existing development economics theories sufficient to explain China's development miracle.

Therefore, the major mission of China's economics community is to develop innovative theory, based on China's development miracle, i.e., construct Chinese development economics by making innovations in development theory based on China's practice. China's development economics is guided by Xi Jinping's thought on socialist economics with Chinese characteristics in the new era, and it takes the exploration of the Chinese-style modernization pathway in the more than 70 years since the founding of the new China, and especially in the more than 40 years of reform and opening up. It is committed to basing its theories on the Chinese experience, forming normative analysis with modern methods, promoting the mainstreaming of its theories, and contributing Chinese wisdom and Chinese solutions to the development of countries around the world.

Since the founding of the People's Republic of China, the long-suffering Chinese nation has made giant leaps—it stood up, became rich, became strong, and achieved the miracle of rapid economic development and long-term social stability. The miracle of China's development did not follow the development pathways and models designed

---

<sup>1</sup> A longer version of this article was first published in *Guanli shijie* [Management World] (2022.6).

by Western economists, but followed a unique Chinese-style path, i.e., by an organic combination of the socialist system and the market economic system. Such a combination was unprecedented. Since reform and opening up began in the early 1980s, we have summarized new, dynamic practices in a timely manner, and constantly promoted theoretical innovations. Many important conclusions have been made on major issues in development concepts, ownership, distribution systems, government functions, market mechanisms, macro-controls, industrial structure, corporate governance structure, security of people's livelihoods, and social governance. The pathway of socialism with Chinese characteristics has created a miracle of development rare in human history; it has expanded the way for lagging countries to modernize, contributing Chinese wisdom and Chinese solutions to human problems, and providing a rich practical basis and unique theoretical resources for innovations in development economics.

### **1. The Miracle of China's Development Requires the Construction of China's Development Economics**

In just over 70 years, China has created a miracle of rapid economic development and long-term social stability that drew worldwide attention as it transformed from a backward country to a modern country, which has drawn worldwide attention. Especially during the more than 40 years of reform and opening up, China's economy maintained an average annual growth rate of more than 9% from 1978 to 2019, its per capita GDP has risen from US\$220 to US\$16,117, and it became the world's second largest economy after the United States. The achievements of China's economic growth are unprecedented in the course of human history, and we can speak of "the miracle of China's economic growth."

At the same time, the Communist Party of China (CPC), ever since it took power, has been committed to transforming a backward agricultural country into a modern industrial country. Thus, during its rapid economic growth, China also achieved rapid structural transformation, as its industrialization and urbanization advanced rapidly. When the added value of China's manufacturing sector surpassed that of the United

States in 2010, China became the world's largest manufacturing country. As for China's urbanization rate, it rose from 17.9% in 1978 to 60.6% in 2019. In just 40 years, China has initially completed the process of industrialization and urbanization that took the developed countries more than 100 years to complete, thereby achieving "the miracle of China's structural transformation."

Another commendable achievement has been China's outstanding contribution to the alleviation of world poverty. The number of China's people in poverty dropped from 878 million in 1981 to 9.6 million in 2015—this alone amounted to a 67% reduction in the number of impoverished people worldwide. By 2020, China had lifted all of its rural poor and poverty-stricken counties, as defined by current standards, out of poverty, thus successfully fulfilling the great goal of building a moderately prosperous society in a comprehensive manner. This is called "the miracle of China's poverty alleviation."

More importantly, China has broken the "Huntington Paradox,"<sup>2</sup> i.e., it has avoided contradictions and conflicts in the process of pursuing modernization, and maintained long-term economic and social stability. China differed from the vast majority of developing countries in having experienced neither incessant social conflict nor instability hampering economic development, nor frequent economic contractions. In its continuous economic growth since reform and opening up, China has achieved a substantial decline in economic contractions and achieved "the miracle of long-term social stability."

Whether it is long-term stability and continuous change at the political level, economic growth and structural transformation at the economic level, or the eradication of absolute poverty and the all-round development of people at the social level, China has achieved successes that are visible to the entire world. It has explored a unique development pathway for less developed countries to follow in their modernization process. However, China's development miracle was not realized under the guidance of existing theories in development economics; the existing theories are not sufficient

---

<sup>2</sup> *Translator's note:* Liu alludes to Samuel Huntington's statement, in his 1968 classic, *Political Order in Changing Societies*, that "modernity breeds stability, but modernization breeds instability."

to explain it. Mainstream development economics cannot explain unique aspects and practices in China's development, such as institutions with Chinese characteristics, the relationship between the government and the market, industrial policies, and institutional testing methods. China is really the world's largest natural experimental field for development economics, and it has opened up whole new areas in development economics. Therefore, the Chinese economics community's major missions are to develop innovative theory based on China's development miracle, explain Chinese-style growth and structural transformation, analyze Chinese-style institutional changes, realize people-centered development, build a modern country, formulate innovative development theory based on China's practice, and construct a Chinese development economics.

## **2. Typical Facts of China's Development**

**First, Chinese-style modernization.** Although China's long, splendid agricultural civilization avoided the Malthusian trap, in which the relationship between man and land is constantly tense, it led a situation in which China was so wrapped up into the countryside that for a long time its ability to become a modernized society was delayed. After the CPC took power, it proposed the constructive goal of transforming China from an agricultural country into an industrial country. Then, through the explorations of the Four Modernizations in the early days of the founding of the New China, and through the development strategies of the early stages of reform and opening up, such as "pioneering a new path of Chinese-style modernization" and "the Three-step Development Strategy," "the New Three-step Development Strategy," and the establishment of the "two centenary goals," China moved closer step by step to socialist modernization. As China entered a new era, the CPC Central Committee, with Comrade Xi Jinping at its core, successively proposed to build a moderately prosperous society in all respects and to embark on a new journey to build a socialist country.

**Second, Chinese-style economic growth.** Various elements, such as capital, labor, land, and technological progress, have uniquely contributed to Chinese-style growth. The elements would include the following:

(1) *A high savings rate*, which brought a high investment rate and high growth, and *a large amount of foreign direct investment*, which was brought about by the higher returns on capital. These factors further promoted China's economic growth by stimulating employment and exports, technology spillovers, and so on.

(2) *The relaxation of the household registration system*. This has enabled the population to continue to enter the cities from the countryside, and for secondary and tertiary industries to absorb agricultural surplus labor, which has turned improved overall labor productivity, making the demographic dividend one of the main drivers of China's economic growth.

(3) *The government's use of China's unique land system to seek development*. Land has become not only an engine for growth, but also a booster for structural change. The government promotes rapid industrialization by using low-cost land to attract investment and accelerates urbanization through the capitalization of land, forming a model of "land-based development."

As China's economy has entered a new normal of moderate growth, however, the effectiveness of capital accumulation, the demographic dividend, and the "land-based development" model has diminished. Meanwhile, China has taken advantage of its late-mover advantages to maintain rapid growth in R&D investment, patent output, and the emergence of new products, so that "innovation-driven" has become a national strategy for sustainable development.

**Third, Chinese-style structural transformation.** Via its unique industrialization path, China leapt from national industrialization to rural industrialization and industrial park-based industrialization, and finally became the "world's factory." At the same time, China has a distinctive dual economic structure. Not only does its urbanization have an obvious dual-track feature, but the relationship between urban and rural areas has also undergone a transformation from urban-rural division to urban-rural coordination, and then to rural revitalization and urban-rural integration. The movement of agricultural surplus labor has been an important force for promoting the transformation of the dual structure; the transformation of urban-rural relations from separation to integration was the essential requirement for eliminating the dual

structure, and the transformation from traditional agriculture to agricultural industrialization has been the industrial foundation for promoting urban-rural transformation.

**Fourth, Chinese-style development pattern.** During the planned economy period, China formed a primarily internally circulating, self-sufficient industrial and supply and demand system. However, the lack of market power led to poor circulation in the national economy, and the economy fell into a state of constant shortage. Since reform and opening up, China's economy has been increasingly dependent on foreign countries; opening up to the outside world made up for the constraint of insufficient domestic demand after the economy expanded and commodities became abundant. After the global financial crisis of 2008, China's economic aggregate continued to expand, and domestic demand levels rose. However, populism in Western developed countries was on the rise, anti-globalist sentiment intensified, and China's foreign trade dependence continued to decline. It became historical necessity to build a new development pattern in which "the domestic cycle plays a leading role while the international and domestic cycles boost each other."

**Fifth, human-centered development.** Human-centered development is a fundamental pursuit of the CPC and the Chinese government. The primary goal and most important political task of the human-centered development concept has been poverty reduction. The reason why China has achieved large-scale poverty reduction is inseparable from its economic growth, regional poverty alleviation and development, and socialist system with Chinese characteristics. In the process of China's economic development, there have been rapid growth of residents' income, changes in the structure of income sources, and structural differences in income growth. Before reform and opening up, there was income egalitarianism, and after reform and opening up, the income gap expanded at high speed and continues to hover. This not only relates to changes of incentive mechanisms from economic transformation, but also stems from the uneven distribution of benefits in economic development and economic transformation. Common prosperity must be achieved under the combined action of internal mechanisms such as property income, the intergenerational transmission of

property, and intergenerational transmission of human capital, as well as external mechanisms such as fair and reasonable income distribution. Over the past 70 years since the founding of the People's Republic of China, the Chinese people's livelihood has developed by leaps and bounds. The significant improvements in the quality of life of different groups of people and different regions, the significant improvements in the people's sense of happiness and gain, and the improvements in public services, including infrastructure and social security systems, have all played important roles in this.

### **3. The Uniqueness of China's Development**

**First, the Chinese-style economic growth and transformation model.** China's planned economy took the development of heavy industry as the means to achieve the "maximized military and industry" development model. Once the heavy industry and the military industry groups form a strong relationship, they usually have enough ability to influence governmental decision-making and prevent excessive transfer of government resources. In this way, the development goal of national industrialization could be quickly realized. During the economic reforms of the 1980s, China's early stage of successful transformation was brought about by the dual-track system, the development of township and village enterprises, and the "financial contract system" with separation of rights. Since the mid-1990s, China's development model has similarity with the "East Asian model," i.e., under the leadership of the government, high economic growth has been promoted through high levels of savings, high levels of accumulation, and high levels of investment. While achieving rapid growth, China has also encountered various major challenges and issues affecting sustainable development, such as rising income inequality, increased social conflicts, rising debt ratios, and asset bubbles. In the future, it will be necessary to alleviate these issues by comprehensively deepening market-oriented reforms and realizing China's great transformation.

**Second, Chinese-style economic development strategies.** Economic development strategy is the key to understanding China's engine of development and



growth. The strategy of prioritizing the development of heavy industry put limited resources into that sector to promote industrialization. This laid a solid foundation for China's rapid economic growth, enabling China to form a complete industrial system and quickly become a world manufacturing power, but it also resulted in distortions of resource allocation, loss of economic efficiency, and unbalanced economic growth. The strategy of prioritizing the development of heavy industry directly led to an urban-oriented policy, which was the starting point of China's pathway toward industrialization and an important source of capital accumulation. It created the conditions for accelerating the industrialization process and economic take-off. After reform and opening up, the export-oriented development strategy gradually replaced the import substitution strategy used during the beginning of the reform and became a driving force for industrialization. This strategy interacted with the coastal development strategy and the opening-up strategy, and through continuous reform and opening up and through integration into the global division of labor system, it has promoted domestic reform and enabled China to rapidly become a world manufacturing power. The reform and opening up and the initial development of China's eastern region, however, brought about the widening of regional disparities. In response, the party and state have proposed successive regional balanced development strategies for the development, rise, and revitalization of the western, central, and northeast regions, in order to achieve the fundamental goal of common prosperity.

**Third, Chinese-style institutional changes.** Unique institutional choices and institutional changes have played important roles in the realization of Chinese-style modernization and the miracle of Chinese development. Given the semi-colonial and semi-feudal social nature of China in the past, the CPC established the objects, tasks, motivation, nature, future, and transformation of China's new democratic revolution. After gaining power, it established a socialist system through agricultural and handicraft cooperatives, and through industrial and commercial joint ventures. The planned economic system greatly enhanced national capacity, but it also brought problems such as rigidity and low efficiency. Since the 1980s, China has adhered to a problem-oriented approach, seeking solutions from practice, and developing policies

from policy experiments. Under its unique system of political and economic interaction, China has realized the process of open rights reform and institutional modernization, and it has laid the institutional foundation for rapid economic development and long-term social stability. It must be emphasized that the Chinese government has played an important role in economic development. Its effective governance, strong national capacity, and effective promotion of the economy are important features of China's economic growth model. The top-level planning system with Chinese characteristics, vertical outsourcing between government levels, the top-down talent selection mechanism, China's unique model for government-market interaction (between local government governance and competition) have created China's unique development path.

#### **4. The Method and Future of China's Development Economics**

China's development economics is guided by Xi Jinping's thought on the new era of socialist economy with Chinese characteristics. It takes as its main line the exploration of the Chinese-style modernization path that was followed for the more than 70 years after the founding of New China, especially the more than 40 years of reform and opening up. It seeks to explain the historical logic, practical logic, and theoretical logic of China's four miracles of development: rapid economic growth, rapid structural transformation, alleviation of poverty, and long-term stability. It systematically summarizes General Secretary Xi Jinping's thoughts, since the 18th National Congress of the CPC, on development economics in the new era—the new development stages, new development concepts, and new development patterns. It integrates Chinese facts, Chinese cases, and Chinese theories to promote the mainstreaming of Chinese economics.

#### **The methods of Chinese development economics include:**

(1) *Taking the big historical view as an analytical perspective.* That is, taking Chinese-style modernization as the main line—from the trauma of modern China's development to the exploration of socialist modernization in the New China, and the four miracles of economic development created by reform and opening up, and

then to the new journey of building a modernized country after the building of a moderately prosperous society in all respects. China's economic development experience should be summarized through historical logic, practical logic, and theoretical logic, in order to form the theoretical system of Chinese development economics.

(2) *Integrating macro- and micro-perspectives on development.* Chinese development economics inherits the grand narrative of domestic development economics emphasizing macro-development in order to explain Chinese-style growth and structural change. It strengthens the behavioral impact and performance characteristics of institutional and policy experiments on organizations and various subjects. It pays special attention to people's development goals and policies as well as development quality and performance, and it genuinely manifests its general aim of "development for the people."

(3) *Summarizing Chinese experience and refining Chinese theory, based on Chinese practice.* Chinese development economics organically combines typical facts, key concepts and categories, theoretical analysis, empirical testing, and characteristic cases in China's economic development. It strives to build a combination of dynamic Chinese economic development practice and the most systematic, rational economic theoretical frameworks.

Based on the People's Republic of China's extraordinary history of more than 70 years since its founding, China is fully capable of achieving sustained economic growth in the next 30 years and building itself into a powerful modern socialist country; it is even more capable of realizing the mainstreaming of Chinese development theory and development economics. On the one hand, China's development economics should focus on the new era and new journey towards becoming a socialist modernized country. It should expound the scientific connotations of the new development stage, new development concept, and new development pattern, and look forward to the tasks, strategies, and pathways of China's new journey of comprehensively building a modernized socialist country from a problem-oriented perspective. The key to modernizing the country is to realize the transformation of the society, from a rights-

restricted order based on identity rules to an open-rights order that treats all people equally through the benign interaction and balance of politics, the economy, and society. Comprehensively deepen reforms, build a high-level socialist market economic system with Chinese characteristics, and improve the basic system of the market system. Adhere to equal access, fair supervision, openness and order, integrity and law-abiding, form an efficient and standardized market environment with fair competition, and realize the modernization of the national governance system and governance capacity. On the other hand, along with China's four miracles of development and the even more remarkable economic development achievements of the future, theoretical and empirical research results based on Chinese experience and the Chinese story will surely play an increasingly important role in mainstream development economics theory, and it will ultimately take the lead in the development of the discipline of development economics.

Chinese development economics is committed to the mainstreaming of its theories. It seeks to promote them by forming them through the Chinese experience and forming normative analysis with modern methods, and then contributing Chinese wisdom and solutions to the development of countries around the world. The main directions for development would include: (1) Building the micro-foundation for macro-economic performance. Rather than paying more attention to macro-level issues, it will turn to focus more on micro-level issues such as education, health, and pensions at the individual and family levels. (2) Focusing, from a long-term perspective, on the historical evolution of developed economies and late-developing countries, as well as on the laws, experiences, and lessons learned in the process of economic development. (3) Constructing development theory from convergence to divergence. The successful experience of Chinese-style modernization proves that there is not only one development pathway to achieve modernization. In the future, development economics will explore how to take differentiated paths of modernization based on the national conditions of different developing countries in order to improve the well-being of people in all countries.

Translated by Thomas E. Smith

