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Intellectual origins of the state-centred economic model in the Xi era

Qian Zhao

Abstract

This paper explores the intellectual roots of China's state-centred economic model during the Xi era, tracing its origins to Chinese traditional Legalist economic thought. The focus is on the period since 2000s. Before this period, the introduction of Management Buyouts (MBOs) in the 1990s were intended to reform state-owned property rights but led to various issues such as 'black box' operations. Prominent intellectual debates, including the Lang-Gu Controversy, highlighted the ideological conflicts in Chinese economic reform. The rising New Left economists advocated stronger state intervention and criticised privatisation. This ideological struggle between privatisation and state-centred intervention reflects broader debates on the role of state in economic governance. By analysing these discourses, this paper sheds light on the shift towards state-centred approaches in China's path of economic thought development, emphasising the blend of market mechanisms with robust state regulation. It also delves into the intellectual heritage of traditional Chinese Legalist thought, which emphasises the importance of strong state control and centralised power for strengthening the Chinese nation, ensuring order and economic stability. Understanding these debates provides valuable insight into China's current economic strategies and offers comparative perspectives for global economic policy discussions.

Key words: State-centred economic model, Legalist economic thought, Property reform, Liberalism, Neoliberalism, New Left economics, Privatisation, Market

1. Introduction

From 1992 to 2012, China's reform and opening up policy marked a crucial period in the burgeoning conflicts and contradictions of Chinese economic thought. It was during this period that the issue of state asset loss in China's state-owned enterprises gained prominence. With the initial progress of economic reforms in the 1980s and the gradual process of marketisation, the reform of state-owned property rights was about to be implemented. State-owned enterprises had faced severe economic hardships. In this process, in order to quickly complete the restructuring of loss-making state-owned enterprises, local governments and the management of state-owned enterprises set off a massive wave of privatisation reforms of state-owned enterprises. The most common method is MBOs (management buyouts).¹

The reason why MBOs have attracted attention in mainland China is that, theoretically speaking, they are significant with respect to borrowing for the establishment of the exit mechanism of state-owned equity. They also help promote the clarification of the property rights of state-owned enterprises, facilitate the adjustment of the property rights structure of the enterprises and the industrial structure, reduce the agency costs of the enterprises, and improve the performance of the enterprises. Nonetheless, various problems have surfaced during the process of the actual operation of the management buyouts locally. For instance, some of the procedures mandated by the policy were mere formalities and had little impact on the final outcome. Like the Russian SOE reforms in some cases, asset transfer prices were determined through agreements, but the process often involved 'black box' operations.² Original managers, using their insider status, would conceal the true value of assets before the transaction, resulting in agreement prices that were significantly lower than market prices. In many acquisitions, the origins of the buyers' funds were unclear.³ Problems arising from the MBOs of some prominent local state-owned enterprises were gradually attracting social attention. During the two sessions of the National People's Congress (NPC) held in March 2003, the deputies were highly concerned about the black box operations emerging from management buyouts, and the Ministry of Finance announced that it would temporarily suspend the acceptance and vetting of MBO cases of both listed and unlisted companies.

Li Rongrong, then Director of the State-Owned Assets Supervision and Administration Commission (SASAC), said that this was because the transfer of state-owned property rights to an enterprise is not a transfer – in the ordinary sense of the word – to legal or natural persons in society but is rather an ‘insider’ transfer within an enterprise. In this process, if no special measures are taken to regulate it, a series of problems such as self-selling and self-buying and low-priced transfers will come about as a result of ‘insider control’ and information asymmetry. Li argued, this is also related to the ‘Great Discussion on State-owned Property Rights Reform’ that swept through almost all sectors of society last year.⁴

In fact, before there was widespread public concern, a few economists had already spoken out and questioned this method of restructuring state-owned enterprises. Among them, the Lang-Gu Controversy (2004) became the peak debate on property reform. This controversy revolved around a series of debates between the economist Lang Xianping and the private entrepreneur Gu Chujun. The discussions grew out of the question of the legality and compliance of these MBO acquisitions, but turned into a fervent debate on, among other things, whether state-owned properties were being eroded or stolen, whether private entrepreneurs were fulfilling their trust responsibilities in property transactions, and whether the ‘State Retreat, Private Advance’ policy in property reform was right.

This dispute transcended the specifics and data of MBO cases, forming an ideological debate in the field of economic discourse. At this level, it encompassed conflicting ideologies such as privatisation, the state, property, neoliberalism, capitalism, socialism, Marxism, etc. This controversy sparked public discussion in the media, most notably in the discursive clash between the advocates of dominant liberal and neoliberal economic theories and the ascendant New Leftists.⁵ The liberal school advocated market-oriented reforms and property privatisation, emphasising the advantages of a free market economy with less state intervention, while the other camp held the opposite stance, advocating for the domination of state ownership in the economy and emphasising the necessity of state intervention in property. The New Leftists argued that an over-privatised market economy without state control could lead to greater wealth inequality and social instability. In this vein, the implementation of policies such as the massive introduction of foreign capital, state-owned enterprise shareholding reform, and privatisation of state ownership

were said to be responsible for a series of social problems, including massive layoffs, corruption, misappropriation of state-owned assets, and wealth disparities.

By scrutinising the views of both sides of this landmark debate, we can show crucial clashes in the dominant discourses in China's economic thinking after 2000s. This paper focuses on the rise of New Left economists in this debate. It will identify the ideas of these New Left economists expressed in their public statements and investigate their intellectual resources. It also explores the possible lineage of traditional Chinese economic thought. Some ancient principles of economic policy-making, particularly the relationship of market and state, can provide valuable insights into the modern approach.

The exploration of this debate and its intellectual roots has broader implications beyond China. It mirrors global discussions on the balance between state intervention and market freedom, a central theme in property debates worldwide. By examining the intellectual lineage and contemporary applications of economic thought in China, scholars and policymakers can gain valuable perspectives on the efficacy and consequences of different economic models. This debate can inform discussions on the role of state versus private ownership and regulation in other countries and offer comparative insights. Furthermore, it contributes to the broader field of economics by providing case studies on the practical application of economic theories and the impact of ideological shifts.

2. Navigating the Waves: China's State-Owned Enterprise Reform Journey

Tracing the intricate evolution of state-owned enterprise (SOE) ownership reform in China over the past four decades, scholars have drawn attention to its significant transformations since the late 1970s. Early literature, such as works by Jefferson and Rawski (1994), highlight the initial phase of reforms focused on improving efficiency within the existing state ownership framework. These reforms aimed at decentralisation, granting more autonomy to SOEs, and introducing profit incentives.

In the 1990s, the reform agenda shifted towards corporatisation and partial privatisation, as documented by Lin, Cai, and Li (1998). This period saw the introduction of the 'seize

the large, let go of the small' policy, which aimed to retain state control over large, strategically important enterprises while privatising or liquidating smaller, less critical ones. This strategy was intended to streamline the state sector and improve its competitiveness. Further developments in the 2000s focused on the diversification of ownership structures. This phase was characterised by significant reforms in corporate governance, aiming to align SOE management practices with international standards.

Recent literature, such as the work by Lardy (2014), examines the ongoing challenges and the role of SOEs in the context of China's broader economic reforms. Lardy argues that despite significant progress, SOEs continue to play a dominant role in key sectors, often benefiting from preferential policies that distort competition. More recent studies, like those by Zhang and Freestone (2020), explore the implications of the latest reforms under Xi Jinping's administration. These reforms emphasise strengthening the Communist Party's control over SOEs while continuing to pursue efficiency and innovation. The dual goals of maintaining political control and enhancing economic performance present a complex dynamic in the current reform landscape.

Based on this body of scholarship, we can distinguish five stages of SOE reform in China: the delegation of power and benefits, the contracting system, the joint-stock system, a period of reform stagnation, and the advent of mixed ownership.

(1) The initial phase, from 1979 to 1984, focused on the delegation of power and benefits to the factory level, aiming to address drawbacks of the planned economy, such as tight control, low enterprise vitality, and worker enthusiasm. This phase witnessed pilot projects delegating management autonomy, reducing tax burdens, and experimenting with profit retention.

(2) The subsequent contracting system phase (1985-1992) was guided by the idea to transfer the successful rural household responsibility system to urban SOEs, varying in forms and durations of contracts across regions. But the dual-track pricing system introduced during this period had unintended consequences, including cost-push inflation and corruption, despite some positive impact on non-state enterprises.

(3) The third phase, from 1992 to 2006, centred on joint-stock reform, aiming to establish a modern enterprise system. Initial joint-stock reforms in Shanghai paved the way for broader implementation, though progress was hindered by limited understanding and regulatory frameworks. Nonetheless, this period saw significant attempts to transform SOEs into market-oriented entities, with measures like mergers, strategic adjustments, and corporate governance reforms.

(4) The subsequent phase of property reform (2006-2012) marked a slowdown in SOE expansion and substantive reform, marred by asset plundering and policy reversals. The establishment of the State-Owned Assets Supervision and Administration Commission further complicated reforms. Between 2006 and 2012, China underwent a series of significant economic reforms, particularly in the area of property rights. These reforms emphasised the increased protection of property rights across various forms of ownership and the improvement of legal systems to ensure equal protection of property rights. Measures included appropriately handling historically formed property rights cases, strictly regulating the legal procedures for disposing properties involved in such cases, and cautiously formulating judicial policies for handling property and economic disputes. Additionally, the government worked on enhancing mechanisms to ensure the fulfilment of commitments, improving the system for property expropriation and requisition, and increasing the protection of intellectual property rights.

(5) The final stage, post-2013, ushered in a focus on a whole scale mixed ownership reform⁶, the so-called 'Entering the period of deepening reform on All Fronts', aligning with the central government's push for comprehensive SOE reforms. In the November 2013 resolution of the third plenum of the National Congress of the Communist Party of China (CPC) listed SOE reform as first among its substantive sections. This phase aimed to integrate non-state and state-owned economies under a shareholder system, avoiding a fundamental reduction in state ownership. Challenges persisted, however – including the formation of interest groups and the need to strengthen Party leadership and corporate governance.

Since China's ownership transformation involved the building of a market economy with a major share of public properties, the demands placed on the government in this context were distinct from those in countries with a traditional private ownership structure. What

is more, policymakers needed to take into account the backdrop of a high-quantity but low-quality (without profit earning ability) stock of public assets (state-owned assets) when they initiated property rights reforms and ventured into the realm of a market-oriented economy.

3. The Lang-Gu Controversy and Conflicts in Economic Discourse

The debate of ownership and property right started in 1979, China initiated its first pilot reform to grant enterprises greater autonomy. Economist Jiang Yiwei successively proposed the theories of enterprise-based management, employee-centered governance, and economic democracy in 1979, 1984, and 1989. During the same year, Dong Fureng was the first to raise the issue of ownership reform, suggesting that the direction of enterprise reform should be guided by policies such as ‘separation of government and enterprise’ and ‘separation of government and society.’

In the 1980s, the theoretical focus shifted toward property rights. In 1987, Li Tieying, then director of the State Commission for Restructuring the Economic System, commissioned ‘domestic economists to form teams to devise reform proposals.’ Of the eight proposals submitted, seven advocated for pursuing shareholding reforms for state-owned enterprises. In 1988, economist Liu Shibai published a series of academic papers on the property rights reform of state-owned enterprises, theoretically explaining that market participants must be holders of property rights, and advocating for the establishment of shareholding companies with clear property rights and diverse ownership.

In 1990, Dong Fureng proposed categorizing state-owned enterprises for different types of reform based on their functions, explicitly recommending that state-owned enterprises should exit competitive sectors while being retained in non-competitive and public welfare sectors. On July 13, 1993, Zhou Shulian, then director of the Institute of Industrial Economics at the Chinese Academy of Social Sciences, published an article in *Guangming Daily* titled ‘Two Issues on the Property Rights of State-Owned Enterprises,’ arguing that ‘ownership is a means to develop productive forces, not merely an ideological goal.’ Zhou and like-minded scholars believed not all enterprises need to be held under state

ownership. This presented a reform mindset that was fundamentally different from previous approaches.

In November 1993, the Third Plenary Session of the 14th Central Committee of the Communist Party of China adopted the 'Decision of the Central Committee of the Communist Party of China on Several Issues Concerning the Establishment of a Socialist Market Economic System', clearly stating that the direction of state-owned enterprise reform was to establish a 'modern enterprise system that meets the requirements of a market economy, with clear property rights, defined responsibilities, separation of government and enterprise, and scientific management,' marking the first time that the term 'property rights' appeared in a central document. The decision sparked a major debate, with one of the central issues being whether institutional innovation should start with property rights reform. Some argued that property rights reform was synonymous with privatization.

In 1998, more than two-thirds of SOEs were running at a loss. That same year, the first instance of an MBO occurred in Shenyang, marking the beginning of a wave of selling SOEs. This sparked a more intense debate on the direction and methods of SOE reform. In 1999, Wang Jue published an article that first introduced the concept of 'the state retreat, the private advance'. This idea quickly gained traction and spread through media coverage, becoming a widely discussed term.

Lang Xianping is one of the most famous of the few debaters. Lang, also known as Larry Hsien Ping Lang, is an economist, commentator, author, and television host based in Hong Kong. Born on 21 June 1956, in Taoyuan County, Taiwan, Lang pursued an extensive education in finance, culminating with a PhD from the Wharton School of the University of Pennsylvania. His career has been marked by his roles as professor at several prestigious universities and as a consultant on corporate governance for the World Bank. Lang's outspoken views and critical analysis of large enterprises have earned his nickname of 'Lang Cannon'.

Since the late 1990s, Lang began to issue a series of strong criticisms in the public media, specifically and vehemently condemning numerous Chinese private corporate leaders for seizing the opportunity of state-owned enterprise reform to privatise public assets and misappropriate state-owned assets. Most of these criticised enterprises were previously

celebrated as 'star companies' epitomising successful reform efforts. These entrepreneurs used to be the managers of their enterprises. Lang rejected the concept of MBOs and denounced the shift of entrepreneurs' identity from being 'nannies to masters.' The famous dispute originated with Lang's lecture at Fudan University on 9 August 2004 called 'The Revelry of Green Cool in the Feast of "State Retreat, Private Advance."'

Lang's critique of private entrepreneur Gu Chujun's acquisition of the state-owned white goods companies Kelon and Meiling, along with his criticisms of the property rights transfers in TCL Group and Qingdao Haier (all of which were famous state / collective-owned enterprises at the time), rapidly ignited a nationwide debate on the 'loss' of state-owned assets. Lang unequivocally attributed all ownership issues in state-owned enterprise reform to 'neoliberalism' reform advocates and declared his intent to rectify them through 'big government and centralised authority'. Lang ultimately asserted that state-owned enterprises were superior to private enterprises and completely denied the necessity of property rights reform in state-owned enterprises.

This dispute subsequently evolved into a battle in mainstream economic discourse. On one hand, several economists from the camp known as 'mainstream economists', including Zhao Xiao, Zhang Wenkui, Zhang Weiyong, Zhou Qiren, and Zhang Jun, began to counter Lang's assertions. Leading figures like Zhang Weiyong contended that 'the process of privatisation of China's state-owned enterprises must commence. Without fundamental changes in ownership and property, the reform objectives cannot be achieved. Why do we talk about "State Advance, Private Retreat" now? Because the standard for evaluating ownership of an enterprise lies in its ability to survive in competition; this is a fundamental approach.'⁷

With regard to the issue of restructuring state-owned enterprises, Zhang believed that 'for many years, our reform goals have been focused on creating a market for entrepreneurs, fostering an entrepreneurial class. Property rights reform and the privatisation of state-owned enterprises are processes that move in this direction. Once private enterprises exist, they will have the incentive to develop a high appreciation of excellent professional managers, and, as a result, professional managers will emerge, and the trust responsibilities of managers will be established.'⁸

Another economist from Peking University, Zhou Qiren, argued that those property transactions among various parties within enterprises were based on free contractual agreements, and outsiders had no say in these legalised transactions. Regarding state-owned enterprise reform, the first step should be to clearly define the property rights of state-owned enterprises while simultaneously initiating market-oriented reforms and establishing clear rules for market behaviours in state-owned enterprises. Then, there should be allowance for natural selection, addressing state-owned enterprise debts, handling equity, and, most important of all, recognising the legitimate property rights of state-owned enterprise entrepreneurs as well as of workers in the process of privatisation. But, first and foremost, entrepreneurs' private ownership in property transitions need to be fully respected.⁹

On the other hand, some economists who identified themselves as 'non-mainstream', including Yang Fan, Zuo Dapei, Li Jian, and Han Deqiang, supported Lang's stance in the debate. They believed that the wave of 'state retreat, private advance' property reforms caused a significant loss of state-owned and collective properties and they even alleged that these assets were 'undervalued' and 'stolen' when sold to private entrepreneurs.¹⁰

When Li Jian refuted the viewpoints of Zhou Qiren and Zhang Weiying regarding the necessity for state-owned enterprises to exit certain economic sectors through market competition, he argued: 'The more important and critical issue is that, logically, we can assume that in an environment where non-state holding shareholders can arbitrarily infringe upon and misappropriate the rights and interests of small and medium-sized shareholders without facing punishment, non-state holding shareholders will be even greedier, more unrestrained, and more chaotic than state-owned holding shareholders. The economic situation of the country will undoubtedly worsen as a result. Leveraging their dominant positions to easily seize the public property rights and interests of small and medium-sized shareholders with minimal constraints is far more tempting than earning profits in the market and distributing dividends in proportion to shareholding. This is something every "economic agent" without extreme moral constraints would eagerly pursue. Pursuing self-interest is the natural instinct of businesses and entrepreneurs.'¹¹

This group of economists was generally labelled as the "New Leftists" inside the economic profession while liberal school was labelled as right. Based on Lang's arguments, New

Left in this debate contended that it was imperative to consider the issue of 'fairness (justice) and efficiency' in the process of property reform, the state's withdrawal from the economy, and the privatisation process. They opposed the dominant overwhelming emphasis on 'efficiency' in property reform and argued that 'fairness (justice)' in the reform process should never be neglected. Since almost all the economic entities then were state or public owned, the stress on 'fairness' actually means protecting SOE workers' benefits and SOEs from selling to private individuals. They stated that 'protecting public interests should be the most basic moral value boundary and the most fundamental societal rule boundary. In a society without even these most basic moral value boundaries and societal rule boundaries, how much growth potential can its economy truly have? How efficient can it be?'¹²

Another leading figure in the camp of the New Left economists who supported Lang in the debate was Zuo Dapei who had completed his postdoctoral research at the Freiburg School of Economics in Germany and returned to China to work at the Institute of Economics of the Chinese Academy of Social Sciences. Together with Yang Fan and Han Deqiang, Zuo Dapei jointly submitted a public letter to the National People's Congress, demanding the cessation of all MBOs in state-owned enterprises on Sep 14, 2004.

Zuo had presented his viewpoint emphasizing 'fairness' in property transformation already before when New Left gained influence since the mid and late 1990s. In his 2002 book *The Chaotic Economics* [混乱经济学], Zuo accused mainstream economics in China at the time of fundamentally favouring freedom in the economy over equality, thus fostering a hegemony of thought that prioritised efficiency over fairness. Against this background, he lamented, discussing fairness had become a transgression, and equality issues were considered taboo in theory. According to Zuo, Chinese mainstream economists propagated an economic ideology that sacrificed the interests of the ordinary majority to enrich a privileged minority. He claimed that those neoliberal economists advocated a ruthless policy toward state-owned enterprises with the ultimate goal of implementing a 'quiet privatisation' – transferring the property rights of state-owned enterprises to a select few private individuals under the guise of 'corporate restructuring'. In his criticism, this kind of transfer equalled 'stealing'. The protection of employee rights was severely weakened, and their power was replaced, sometimes even leading to wage deductions and arbitrary punishment.¹³

When criticising the efficiency-oriented arguments of neoliberal economics, Zuo posited that fairness and equality should hold an equally important position within economic systems and economic policies. He attempted to demonstrate the relationship between freedom and efficiency in economics, contending that in modern society, freedom must be based on a certain degree of equality.

Zuo also pointed out that there were long-term fundamental conflicts of interest between developed countries, multinational corporations, and foreign capital, and developing countries like China. If, as neoliberal economists advocated, the theory of free trade was followed blindly and foreign capital and foreign companies were allowed unrestricted entry into China without effectively protecting China's nascent industries, particularly strategic industries, China's economy, social fairness, and national interests would be harmed. And this would lead to significant detriment.¹⁴ Therefore, he asserted that the theory of free trade based on the principle of comparative advantage, as espoused by neoliberal economics, was an outdated and antiquated theory completely unsuited to China's circumstances.¹⁵ Instead, he supported the new trade protection theory that had emerged over the past two decades and was characterised by the prudent protection of domestic industries.¹⁶

Economists like Zuo Dapei vehemently opposed giving foreign companies free rein to seize investment opportunities in China, advocating restrictions on foreign capital entry to effectively protect domestic nascent industries, especially technology-intensive industries. They argued against following the principle of comparative advantage proposed by neoliberal economics, which suggested that China and other new emerging markets should initially develop industries in which China had a relative advantage. Instead, Zuo and Yang Fan, among other economists, strongly suspected that such theories are intended to make emerging markets subordinate to mature capitalist markets and a source of profit. They see it as another form of colonisation.¹⁷ Zuo stated: 'If we accept the viewpoint of mainstream economics and ignore industries in which China temporarily lacks a relative advantage, not only will it slow down China's speed in industrial upgrading and hinder its economic development, it may also affect China's strategic industries, seriously compromising China's military defence capabilities and reverting China to a backward nation subject to exploitation.'¹⁸

Subsequently, another political economic scholar Cui Zhiyuan,¹⁹ who had just returned to China from the United States, was invited to join this debate by a website founded by left-wing intellectuals named Wuyouzhixiang²⁰. Cui was invited because he has already gained social influence in reform discourses by publishing two influential papers named 'Institutional Innovation and the Second Ideological Emancipation[制度创新和第二次思想解放]'(1994) and 'The Angang Constitution and Post-Fordism [鞍钢宪法和后福特主义]' (1996) when he was in USA.²¹ The first paper was acclaimed to influence one of the major debates in China's agricultural policy at the time.²² The latter has directly triggered a great deal of discussion in Chinese economics schools.

In this speech, Cui pointed out that the MBO in China was not the same as the buyout in Western economic theory; rather, it was a 'buy-in'. This distinction arose from the fact that these enterprise management teams were not acquiring publicly listed stocks but non-public state-owned shares and legal entity shares. Moreover, there was no open bidding process, and pricing was entirely determined by the management team themselves. Cui emphasised that this issue was the most critical one with respect to the next steps of China's property reform because it yielded no benefits, neither in terms of fairness nor in efficiency. He argued, 'If the development of off-exchange agreement transfers in MBO continues, China's market economy will slide in the direction of Indonesia and the Philippines. Professors Wu Jinglian and Qian Yingyi propose differentiating between good and bad market economies,²³ and Lang Xianping's call to halt off-exchange agreement MBOs is aimed at establishing a "good" market economy.'²⁴

Simultaneously, in response to Zhang Weiyong's liberal proposition that China's property reform should 'treat Chinese (private) entrepreneurs well', Cui contended, 'State-owned assets are closely related to each and every one of us. For instance, state-owned assets ensure that retired workers receive pensions (by reducing state-owned shares and bolstering the social security fund), providing them with retirement security. State-owned enterprise profits are returned to everyone in various forms (social welfare, social security), at least morally speaking. So, it is not true that state-owned assets have no relevance to each and every one of us.... [T]he most significant significance of the Lang-Gu controversy is to awaken our awareness: state-owned assets are something that each and every one of us must care about and relate to as they were accumulated by our grandparents, parents, and the previous generations. Their lives were very difficult back then, and they

accumulated the 10 trillion yuan in state-owned assets that we have now. So, can we transfer them through off-exchange agreements and let the management teams acquire them? I'm not saying we should have state-owned enterprises controlled by bureaucrats as in the former Soviet Union. I am emphasising that a socialist market economy is a socialised asset.²⁵

Cui supported the idea of the state holding a certain proportion of ownership shares. He further pointed out, using the example of the United States, that such mixed ownership companies and government-operated enterprises were quite common in the West. In his view, the reason why China's market-oriented reforms were more successful than Russia's was because China did not kick off comprehensive property privatisation overnight, transferring most of the wealth into the hands of a few, but instead improved taxation, starting with the reform of the value-added tax in 1994. Cui cautioned that China should be particularly attentive to the problem of collusion between officials and businesspeople during privatisation. Moreover, he concurred with Olson's proposition in *The Logic of Collective Action* (1965) that economic policymakers must not allow the formation of special interest groups, but continually break them up. He pointed to the examples of Germany and Japan, which repeatedly broke up these groups in the post-war period. He concluded that "a dynamic economic democracy mechanism was required in society."²⁶

Cui's specific model of property rights reform, which has been laid out in his 'The Angang Constitution and Post-Fordism [鞍钢宪法和后福特主义]' (1996) was actually based on Mao Zedong's lauded *Angang Constitution*.²⁷ He considered the Maoist concept of the 'direct participation of the public' as the core of 'economic democracy'. Cui stated, "Economic democracy" aims to promote democratic management within enterprises, following the principles of post-Fordist democratic management and relying on the creativity of workers to enhance economic efficiency." In essence, this perspective advocates that, even in assets with clarified private ownership and even in the realm of private property in business, decision making should be collective or 'public', emphasising public choice and employees' common participation. Mao's *Angang Constitution* which emphasised 'workers' autonomy' in the enterprise is seen as the ancestor of such democratic management. Cui added the precondition of 'publicly shared ownership' to the advocacy of 'economic democracy' in China's property rights reform.²⁸

For various reasons, those economists who favoured Lang's point of view advocated for a more dominant or interventionist role of the state in the economy and property reform. Mainstream economists, on the other hand, for a liberal market-oriented approach with limited state intervention, favouring free private property rights over centrally coordinated state property rights.

4. The Rise of China's 'New Left' since the mid and late 1990s

As it turned out that some of the measures taken in the early stages of the reforms were too drastic and led to policy failures and economic dislocations, social scepticism towards liberal and neoliberal economics arguments increased and these influences gained resonance. During the late-1990s property reform, rush bankruptcies, and large-scale layoffs resulting from state-owned enterprise reforms led to a general public sentiment that attributed responsibility to 'market-oriented and privatization reforms' for their job losses, declining social status, and widespread official corruption.

The debate between New Left as state interventionist and liberal market-oriented approaches reflects deeper ideological divisions within China's economic discourse. From the analysis of the arguments put forward by representatives of both ideological camps, it can be seen that these opposing views came to a head during the Lang-Gu Controversy, a prominent debate that highlighted the tension between advocates of state intervention and proponents of a liberal market economy. This debate was not merely an academic disagreement; it was deeply intertwined with broader ideological shifts and societal changes occurring in China at the time.

It is necessary to place the previous and subsequent discussion of the Lang-Gu debate in Chinese economics in the broader context of trends in economics and the social sciences at the time, and to trace its relevance to ideology and to social transformation over time. At the time when China began implementing its reform and opening up policy and gradually resumed intellectual exchange with the West in the late 1970s and 1980s, liberalism and neoliberalism have been up-and-coming there. Hence, they have influenced many Chinese economists taking part in this exchange. Meanwhile, the ideas of the New Left in

Europe and America were also introduced to China through academic exchanges, publications, and media. Various ideas, which include criticism of authority and the pursuit of social justice and fairness, had a significant impact on Chinese intellectuals and young people who held skeptical views of economic reforms. Both liberals and the New Left acknowledge that serious social inequality and corruption have emerged during the reform and economic development since the 1990s. However, they hold opposing views on the causes of corruption and the solutions. The liberals argue that these issues are inevitable growing pains during economic takeoff, with the root cause being that political power has not fully withdrawn from the market. They claim that the 'visible foot' is interfering with the 'invisible hand,' and the only solution is comprehensive and thorough marketization, including the implementation of private property rights and the complete removal of power from the market to achieve liberal ideals of equal opportunity and procedural justice.²⁹

As mentioned above, it is particularly noteworthy that the New Left has become increasingly active since the mid-to-late 1990s, as the stratification of society has become more pronounced and the social injustices that have emerged in the process of economic differentiation have become more serious. Members of the Chinese New Left, most of whom are social science scholars, have attributed the many issues present in Chinese society to flaws in the direction of the reforms.³⁰ They argue that it is liberalism, or 'neoliberalism', that has dominated China's economic reforms, leading to the theft and plundering of social and people's property.³¹ In the end, these intellectuals from social science disciplines merged with the non-mainstream economists. Generally, they are labelled the 'New Left'. From the perspective of criticising capitalist globalisation, the New Left has put forward the values of fairness, social justice and equality. The New Left strongly criticizes the economic reforms and redistribution of social resources in China, arguing that a few political and economic elites have become the main beneficiaries, while the general populace has been sacrificed and deprived. As the centre of gravity of the reform gradually moves into the reform of private property rights in state enterprises, they contend that this extremely unjust process of looting state-owned assets has been carried out under the banner of 'free economy' and 'private property.' In other words, they believe that 'market economy' theories have merely served as a pretext to legitimize the division and plundering of state assets by a privileged few.³² This was also their viewpoint in the Lang Gu debate. The social influence of these intellectuals grew as their criticisms of the chaos

emerging from the early days of property rights reform resonated with public expectations since late 1990s. Regarding corruption and income inequality, they turned from initial criticizing elites to attribute these issues to capital and market liberalisation, as shown in the Lang Gu debate. The proposed solutions, such as maintaining public property, strengthening state authority, and engaging in wealth redistribution as a state, were proposed by sociologists and historians without a professional background in economics. Visibility of the Lang-Gu dispute on social media help the New Left's viewpoint gain wider social knowledge.

Simultaneously, official media began to support the New Left's narrative that China's successful experiences should be attributed to its 'relatively independent and comprehensive sovereign character'. It was claimed that this independence and sovereignty were achieved through the practices of the Communist Party of China, presented as China's unique 'state-party' model. It was said to embody China's 'comparative institutional advantage', in which it successfully 'avoids the development pitfalls experienced by some Latin American countries under globalisation'.³³ This is how the New Left gets a boost from the times. One cornerstone of the New Left's ideology is to combine elements such as the 'Chinese model', nationalism, and social equality with economic discourse. For instance, the New Left opposes Western liberalism as the equivalent of cultural hegemony, cultural colonisation, and cultural invasion. Some New Leftists criticise globalisation, contending that, upon joining the WTO, China was incorporated into an unjust capitalist system. They argue that liberal capitalism has proliferated excessively in China, diminishing the nation's influence and control over its own affairs. That is why they call for resistance to foreign capitalism and vigilance against the intrusion of multinational corporations.³⁴ This argument also once aroused doubts and fears in China about the dangers to national sovereignty arising from the 'opening of the country's gates'. The New Leftists even criticise those who advocate total learning from Western liberal democracy as 'traitors'.³⁵ This fear of economic sovereignty and the argument that the opening up of the economy can trigger the loss of national sovereignty has always been present. This vigilance over territory and sovereignty is an important feature of an old defensive civilisation like China. Over the 19th century and mid 20th century, China endured significant struggles, facing humiliation and exploitation by foreign powers. From the Opium Wars (1839-1842, 1856-1860) to the Treaty of Nanjing (1842) and the Boxer Protocol (1901), these experiences fueled its intellectuals' quest for sovereignty, modernization, and national rejuvenation.

This historical background is essential for understanding contemporary Chinese thought and cannot be overlooked.

In the 1970s, China experienced significant struggles against foreign block and internal upheaval. The decade marked the end of the Cultural Revolution (1966-1976), a tumultuous period characterized by social chaos, and economic stagnation. As the Cultural Revolution wound down, there was a growing realization that China needed to recover from internal turmoil and address its backwardness to regain its place on the world stage. Changes came from the recognition of the need for modernization and reform. The 1978 "Reform and Opening-Up" policy initiated by Deng Xiaoping sought to break away from the rigid ideological constraints of the previous decades. This shift aimed at embracing economic reforms while still upholding the importance of China's sovereignty and learning from the humiliations it faced in the past under foreign influence.

The lessons drawn from China's 'century of humiliation'—including the need to strengthen the nation and avoid being exploited or marginalized by foreign powers—resonated in shaping the strategies of modernization and ownership privatization. There was a renewed emphasis on state self-reliance, combined with opening up selectively to foreign technology, capital, and knowledge to fuel China's economic resurgence while avoiding losing sovereignty dignity. With the gradual prevalence of statism, even within liberalism, a state liberalism view has emerged in 2000s³⁶ that seeks to integrate statism and liberalism.³⁷

This view basically emphasises the primary need to build a strong modern state. For example, legal expert Gao Quanxi, who was a strong and firm advocate of Hayek's constitutional ideas, stressed that 'truly mature liberalism is most concerned with the interests of the state, and it can be said that liberalism is equal to individualism plus statism'. Economic rights should not be free; rather, equality of economic rights should be more sought more. Gao believes that in a classical society wealth is owned by the public authority, In feudal society, however, though wealth was still limited and restrained, there was an unequal exercise of the right to property. In modern society, the discussion of wealth centres mainly on how to create wealth, and the significance of the constitution is precisely to safeguard people's wealth through the right to property. He believes that

China's current problem lies in how to move from the creation of wealth to the constitutional guarantee of property rights.³⁸

The 'Lang-Gu controversy' was a concentrated expression of the fierce clashes in Chinese economic thought at that time. *China Is Not Happy*, authored by four New Left scholars, contends that China should adopt a more assertive stance in economic, diplomatic, and military affairs. The book quickly became a bestseller in 2009. On 28 February 2012, a World Bank media conference met with protest by the independent Chinese scholar Du Jianguo in Beijing. Du shouted that 'state-owned enterprises cannot be privatised' and denounced 'Wall Street as liars'. Insofar as the surface issues of their arguments are concerned, the above summary seems to have basically described their respective theoretical differences. We look at a very fierce fight among economists about liberalisation and privatisation in economics. The Lang-Gu controversy was one of the first major expressions of this current intellectual constellation. To this day, both the left and right factions continue to attack each other regarding economic reform issues.

5. 'State' and 'Party' in the Property Discourse

With the widespread use of the internet, the impact of this debate was remarkably amplified. The extensive public participation transformed what was initially an academic debate on reform into a broader social discussion, becoming "the largest and most heated controversy in economic theory in the past 20 years."³⁹ With the wide participation of intellectuals in the debate and public knowledge, the focus of this controversy gradually changed from how to assess the 'serious loss of state-owned and collective assets' in the course of privatisation, more specifically by way of pathological MBOs, to a general 'public-private dispute' involving China's property rights system as a whole. Following this major debate, legislation aimed at regulating MBOs was initiated in December 2004. This seems to be a victory for New Left. In this same legislation meeting (The Second Session of the 10th National People's Congress adopted the constitutional amendment), the amended Article 13 of the Constitution explicitly states: "The lawful private property of citizens is inviolable."

In real situation, the social debate stirred up by the Lang-Gu Controversy was unprecedented, leading private entrepreneurs to feel questioned and pressured from various social quarters. This situation was clearly detrimental to the market economy and ongoing reforms at that time. In 2005, the State Council officially introduced the "36 Guidelines for the Non-Public Economy," aiming to break down monopolistic industry barriers and support the development of the non-public sector. However, this policy, praised by entrepreneurs as "the most practical policy document," stalled during implementation. The "Draft of Property Law," intended to equally protect state, collective, and private property rights, was also postponed due to a wave of public criticism. The viewpoint that starkly opposes the interests of the vast proletariat with those of wealthy private property owners found considerable support in China. No wonder the privatisation of state property continues to be a bone of contention.

In April 2012, market liberal economist Mao Yushi called for the privatisation of SOEs on a Weibo platform. This was not his first time making such an appeal. At the previous year's National People's Congress (NPC) and the Chinese People's Political Consultative Conference (CPPCC) sessions (referred to as the Two Sessions), his Tianze Economic Research Institute already proposed the 'SOE Loss Theory'. At the same time, opposition to privatisation was growing much stronger. Some economists who were previously considered liberal shifted their positions. Leading figures in New Institutional economics also joined to criticise the liberal economists, such as Justin Yifu Lin of Peking University. He suggested that 'large-scale privatisation' could not solve the problems of SOEs, arguing that privatisation is not the core issue in SOE reform. As one of the key initial designers of China's economic reform, Hua Sheng directly criticised the privatisation argument, asserting that it would lead China into disaster. He argued that China's reform, characterised by the coexistence of public and private sectors, is considered the most successful model among developing countries.⁴⁰

The China Enterprise Institute, a key official research institution, organised over fifty articles and 400,000 words of commentary and reports, clearly announcing to the public that the direction of SOE reform is marketisation, not privatisation. This became the most influential phenomenon in SOE publicity in 2011.⁴¹ An interview in *Guangming Daily* with Li Jin, chief researcher at the China Enterprise Institute, was called 'Privatisation or Marketisation'. Li argued that '[t]he task of SOE reform is to adjust the strategic layout of the

state economy and achieve an organic combination of public ownership and the market economy, rather than moving towards privatisation'.⁴²

The New Left economist Hu Angang, Director of Tsinghua University's Center for China Studies, openly supported 'State Retreat, Private Advance' approach. He stated that old SOEs may have rusted because of old systems; The aim is to 'de-rust' them, reform mechanisms, lighten their burdens, and transform them into new enterprises. It is absolutely not the solution, however, to turn them into private enterprises: 'Our goal is to truly nurture the backbone of the state.... In a way, privatisation is the same as cutting off your own legs and replacing them with those of foreign investors'.⁴³

Jiang Sanliang, a professor at Anhui University's School of Economics, said in her 2012 paper, 'The only explanation of those who are keen on privatisation, if not they do follow it out of ignorance, must be doing it out of ulterior motives'⁴⁴. Zuo Dapei was firm in his stance in his 2007 article: 'Privatisation is wrong, especially for our country. The fundamental issue with SOEs is how to regulate their operations and adapt them to a market economy.'⁴⁵ In 2013, Liu Rui, deputy dean of the School of Economics at Renmin University of China, stated: 'Today, we are no longer worried about whether the state economy is compatible with the market economy but about whether the state economy can maintain its enterprise, attribute advantages, and grow stronger in the market economy.'⁴⁶ In 2012, Xu Baoli, director of the Competitiveness Research Department at the state-owned Assets Supervision and Administration Commission's Research Centre, published a signed article stating, 'Marketisation is the direction of SOE reform; privatisation is not an option. Despite the debate between planning and market orientation in the reform process, actual operations have always been conducted with a market-oriented approach.'⁴⁷

This means that the liberal economists who emphasised the full liberalisation of market and privatisation reforms was being opposed by a coalition of Chinese economists from different backgrounds in 2000s and 2010s. These opponents are not limited to the New Left but also include those from New Institutionalism, Marxism, and other economic schools of thought. Among these groups, the opposition from the New Left is the most intense. It is precisely because of their different academic backgrounds that their opposition often stems from the notion of state interest.

Zuo Dapei in his 2007 paper stated that many of the urgent issues facing China today indicate the necessity of vigorously developing SOEs and the state economy. China needs a strong state-owned economy and SOEs that strictly enforce regulations and internal discipline. Without such SOEs, China will not succeed, and having too few of them will not suffice either.⁴⁸ Cui Zhiyuan advocates maintaining public ownership of property and strengthening the regulation power of the state. They argue that, to curb the intensification of inequality through wealth redistribution, the government's redistribution functions must be greatly expanded. The New Left believes that to eliminate the wealth gap and address unfair distribution, as well as to improve the living conditions of vulnerable groups, it is necessary to significantly enhance the government's ability to extract wealth from the private sector and transfer it into the hands of public.⁴⁹ The state, rather than the market, should be the right and reliable body for handling this issue. The New Left often takes the failures that occurred during the market economy transitions in the former Soviet Union and Eastern European countries as important lessons for Chinese reform. Zuo stressed in the interview by *The Journal of Finance and Economics* that 'Regarding the wave of privatization, I can now conclude that it has essentially been a failure. Particularly in the Soviet Union and Eastern European countries, the type of privatization carried out during the transition to a market economy was fundamentally flawed. The consequences are evident, as these countries experienced significant economic downturns. In other words, there is really no valuable international experience to discuss in this regard.'⁵⁰

In November 2013, the *Decision of the Central Committee of the Communist Party of China on Major Issues Concerning Comprehensive and Deep Reforms* announced the start of a new round of property rights reform for SOEs. In September 2015, the *Guiding Opinions of the Central Committee of the Communist Party of China and the State Council on Deepening State-Owned Enterprise Reform* established a series of policy measures for SOE reform. Two notable aspects of these measures are: first, the categorization of state-owned enterprises into three types: commercial enterprises operating in fully competitive industries and sectors, commercial enterprises in important industries and key areas, and public welfare enterprises; second, the gradual promotion of mixed-ownership reform, with an emphasis on shifting the focus to the regulation of state-owned capital. At the same time, the slogan put forward by the State-owned Assets Supervision and

Administration Commission (SASAC) of China is 'to make state-owned enterprises bigger and stronger.'

In July 2015, during a research visit in Jilin, Xi Jinping emphasized the need to steadfastly 'make state-owned enterprises bigger, stronger, and better.' In July 2016, at a national seminar on state-owned enterprise reform, he issued important instructions, stating that state-owned enterprises are a crucial force for enhancing the country's overall strength and safeguarding the common interests of the people. He asserted that they must be strengthened, optimized, and expanded, continually increasing their vitality, influence, and risk-resilience to ensure the preservation and appreciation of state assets. In October 2016, at a national meeting on the Party building work of state-owned enterprises, Xi reiterated the commitment to steadfastly strengthen, optimize, and expand state-owned enterprises. On September 27, 2018, during an inspection in Liaoning, he stated that our state-owned enterprises must continue to grow stronger, better, and larger. He criticized the notion of dismantling state-owned enterprises or promoting small state-owned enterprises as erroneous and one-sided, declaring that any skepticism or pessimism about state-owned enterprises is fundamentally wrong.⁵¹

China's party-state system determines that SOE is party-owned enterprises. This 'Party-owned economy' was further implemented with the establishment of 'Party Economic Committees' (Party branches in large state-owned enterprises, etc.) at various levels from the central government to local levels, bringing significant authority over enterprises under the purview of Party branches. In the late 1990s, private and other non-state-owned enterprises were also required to establish Party branches and various levels of Party organisations.⁵²

This emphasis on party-state ownership of property was also reflected in the main propositions of the New Left after 2000.⁵³ Some argued as follows: 'The Communist Party should not only control the military but also control the economic assets. In the current situation, this is especially important.' And, '[i]f the Party becomes a huge interest entity, it can exert various influences on the People's Congress, providing significant political manoeuvring space.' The principle of the Party managing the state economy should be that 'the government and enterprises should be strictly separated, and the Party and government should be only moderately separate. 'Currently, power in enterprises lies with

the Party committee. If certain responsibilities for managing state-owned properties are given to the Party committee and a corresponding Party Economic Committee is established, the system can be rationalised, the boundaries of interests clarified, and the market gradually develop.⁵⁴

However, China's New Left has consistently struggled to define whether the ownership of assets should be public or party/state-party ownership. They seem to conflate the two. Zuo Dapei proposed establishing an 'efficient principal-agent relationship.' Questions arise as to who should represent the state in managing state-owned assets and who should represent the 'public'. He did not refer clearly. In Zuo's *The Chaotic Economics*, this management system can efficiently address the principal-agent problem in the operation of public capital and ensure the vitality and efficiency of state-owned enterprises. Therefore, whether retaining a large number of state-owned assets is not fundamentally an economic feasibility issue but rather a matter of political determination and conflicting interests.⁵⁵ Cui Zhiyuan suggested creating 'microeconomic democracy', which refers to workers' democracy within enterprises. He believed that the 'post-Fordist production model' offered greater worker participation in enterprise management and improved economic efficiency. Nevertheless, neither addressed the issue of agents and the relationship with the party.

In general, the Chinese New Left economist's basic position since 2000s was that copying the economic reform design implemented in former socialist countries (such as the 'shock therapy' in Eastern Europe) based on neoliberal economics, would have disastrous results. They argued, instead, that placing greater emphasis on the relationship between the market mechanism and state control would be more helpful in addressing the issues of economic transition. They advocated a strong state as the primary vehicle for achieving social equity and national as well as cultural development. The Chinese New Left emphasises state intervention and collective ownership to address the challenges posed by rapid economic reforms. This substantial differences highlight the unique context and goals of the Chinese New Left, which are shaped by the country's historical experiences and current sociopolitical landscape. Hence, the following part scrutinises the recurring roots of this approach in Chinese legalist thought.

6. Legalist Economic Thought and Chinese New Left Economics

In the core economic views of the Chinese New Left, state ownership in a market economy, gained a higher status and had to be dominant for the sake of national security. As a radical supporter of New Left economics, Wang Shan vigorously advocates the formation of a 'Chinese Alliance for Safeguarding Asset Appreciation' composed of the 'new bureaucracy' and the 'new capitalist class'. He promotes a model of 'political tight control' in economics'. He asserts: 'There is a certain relationship between the corruption of officials and the stability of the officialdom within certain limits; it is a symbiotic phenomenon.... This is an unavoidable phenomenon.' 'I believe that what China needs most today is order. Ritual, righteousness, integrity, and shame, the four dimensions of a nation; when the four dimensions are not upheld, the nation will cease to be.'⁵⁶ Ritual is order, which means using power to ensure that different social strata are arranged in a hierarchical manner. Ensuring that different strata occupy different positions in society is the basic framework of social order. Some strata are situated at the bottom, and, at a certain stage, some strata are in positions of special interests.'⁵⁷

From the previous analyses of section 2 to 5, we can see that the Chinese New Left's distinctive emphasis on state intervention, national interest and in particular cultural sovereignty. They welcome the market economy within the framework of the party-state system. This nationalist-leaning economic thought gained strength and rose during the market-oriented reform period at the turn of the century, thereby weakening the liberal economic ideas that popular in the 1980s and early 1990s. This momentum reflects China's specific historical, cultural, and political context and underscores the need to understand the shift of Chinese economic thoughts in reform.

By analysing and comparing the Chinese New Left economics with the economic ideologies originated from the Spring and Autumn period in the regard of the relation between the market and the state, it becomes evident that there is significant relevance between them. These parallels are primarily reflected in the emphasis on state intervention in the economy out of national interest, the restriction of private interest as statecraft, and regulation of the market as a channel of resources distribution.'⁵⁸

In China's 5,000-year history, the very first and most profoundly influential state reform was undoubtedly the Shang Yang Reforms (356 BCE and 350 BCE) led by the representative figure of Legalism, Shang Yang. This is a school of thought that emerged during the Warring States period (around the same time as the Spring and Autumn Period, 770-221 BCE). It advocated the centralisation of state power and the strengthening of the ruler's authority to maintain social order and stability. Shang Yang's reforms in the Qin state focused on agricultural and military development and implemented policies to suppress commerce, relying on the power of the state and strict legal measures. The rationale for such extreme market intervention is systematically discussed in the *Book of Lord Shang*, where the state interest and private interests are positioned in a mutually exclusive, antagonistic relationship.

The core of the Shang Yang Reforms was fundamentally a transformation of land ownership. Resources that had been concentrated in the hands of a few slaveholders, aristocrats, and old gentry were redistributed to farmers through military operations. After the Shang Yang Reforms, the land was owned by the state, and this, with respect to legal rights, formed the foundation of Qin's land system. Under this form of land ownership, society exhibited two opposing poles: the state and the farmers. On the surface, the fundamental basis for establishing this connection was the transfer of land use rights. The state granted sufficient land to the direct producers, tailored to their level of productivity, enabling them to carry out their necessary labour. In return, the state collected surplus labour from the farmers as land rent. The farmers obtained land use rights and, in turn, paid surplus labour to the state as land rent.

The land previously held by the aristocratic powers in the Qin state was also completely placed under the control of the Qin king, i.e., under state control. This effectively placed land under the control of the ruling upper class. Subsequently, Shang Yang implemented measures such as grouping small villages into counties and uniting mountains and wetlands, which allowed for the control of land owned by the lower-level population. It also enabled the Qin state's orders to be implemented at the grassroots level, organised around villages as the basic units of society.

All aspects of reform revolved around the issue of ownership and state development, with the goal of developing productivity to enrich the grassroots (yangmin [nurture the

people] and fumin [enrich the people]) for the sake of strengthening the nation. These reforms laid the foundation for the first major unification of China in the Qin dynasty (236-221 BCE), replacing the aristocratic politics of the Spring and Autumn period with a bureaucratic system influenced by Legalist thought. The emperors became the biggest landlord in the country. This dominant state ownership model was inherited by the Han dynasty and continued to influence the Chinese socioeconomic system for over 2,000 years until the present.

Legalist thinkers like Han Feizi and Guan Zhong believed in the absolute authority of the state and the subordination of private interests to the state's interests in the economy. They argued that a strong and centralised state, with clear laws and regulations, was necessary to maintain the unity of the Chinese nation. Legalist economic thought was centred around the idea of unified state management of the national economy and market regulation. The latter is necessary since Legalists assumed that the pursuit of private profits [利] by the individual always has negative effects on the market and the economy at large. According to the Legalists, human nature is selfish, and this selfishness undermines the development of commerce and markets, which in turn affects the implementation of state orders as well as the development of the country. Therefore, the state is needed as an authority to regulate and take corrective measures. This approach aimed to promote national wealth and strength, primarily to serve the needs of expansionist warfare. These ideas and measures are 'state intervened economy'. Guan Zhong's expressed it this way: 'The way to govern a country begins with enriching the people; when the people are prosperous, governance becomes easier'; Shang Yang spoke of 'enriching the state and strengthening the military'; and Han Fei of 'absolute sovereignty of the ruler'. Whatever the terms they used, they all represented different expressions of the overall goals of the state economy regarding socioeconomic control objectives. The market as a channel for distribution of resources was expected to serve the overarching purpose of the state. Therefore, rulers should regulate and develop the market further.

During the Qin and Han periods, economic thought became increasingly unified as the feudal state was gradually established. The Legalist economic principles and policy frameworks were combined with Confucian ideals of 'China as a Great Unity', forming Chinese mainstream economic ideology and system characterised by prioritising agriculture over commerce and state intervention. Via the in-depth analysis of texts such as the *Book of*

Lord Shang and the *Guanzi* with its theory of light and heavy (for instance, the state is heavy while the individual is light), one can trace how the economic ideology of the state as a superior collective entity expanded from the Qin state during the Warring States period to become a consensus in decision making throughout the dynasties.⁵⁹

The *Book of Lord Shang* repeatedly states that the aim in a state that is governed properly is to strengthen the state. Shang Yang's concept of 'weakening the individual' involves ensuring the individual's economic dependence on the state and instilling a fear of the state's laws among the populace. The Legalist assigned the state a central role in directly managing the economy, proposing it as the optimal solution for both enhancing state power and ensuring the people's livelihood (Legalist interventionism).⁶⁰ In essence, Legalist doctrines are interventionism and statism. The Legalist methodology of an economy controlled by the state as superior collectivist entity led to the Qin state's dominance over other states during that era and was revered and continued for the next 2,000 years of feudal dynasties.⁶¹

According to Zanasi, the question of whether a state-managed market was better suited than private economic forces to maximise the distribution of China's finite resources had, in fact, already arisen during the early stages of the Chinese empire.⁶² This is exemplified by the 'Debate on Salt and Iron' (*Yantie lun*, 81 BCE) during the Western Han Dynasty (206 BCE-9 CE). Legalist texts argued that only the state, through careful 'manipulation of money and the relative prices (*qingzhong*) of all goods', could ensure an equal distribution. The basic principles are primarily the idea that the state had the paternalistic duty to manage the economy for the good of the commonwealth.⁶³

The 'Debate on Salt and Iron' signified a historical unification of Confucian moralism and Legalist pragmatism in Chinese economic thought: it signified a holistic model that integrated economic objectives within a wider framework of social stability based on paternalistic relationships between the state and society and among societal groups.⁶⁴ In fact, the role of the state in the economy characterised much of Chinese economic thought in the economic conundrum of nurturing the people (*yangmin*) and managing the economy of the whole empire. Hence, through realising the role of the market as the main channel for the distribution of resources, reasserting state control over the economy was articulated throughout imperial China. Upon entering the modern period, the Qing dynasty and

period of the Republic are no exceptions.⁶⁵ This economic thinking is basically rooted in Legalist economic ideas.

In our analysis of the New Left economic thought, we can see that they initially emphasised economic fairness on two levels: workers and the state. If the proportion of private property in the whole economy was larger, however, it was seen as unfair and a harm to the state as the collective ruling entity. Conversely, public ownership was inherently regarded as representative of the people. In the socialist context, the people are considered the 'true masters' of the state. The interests of the people (plural) are not necessarily the same as the interests of individual persons. The interests of the people seem to need representation by the party-state. This actually reflects a dichotomous thinking that sets the state against the individual.

The New Left economists maintained that private ownership would undermine the foundations and securities of the nation. This notion that the state and the individual are in a mutually exclusive, antagonistic relationship – where the strength of the state is not only not based on the development of private interests but actually requires the limits of private interest as a prerequisite – is strikingly similar in both New Left and Legalist economic thought. As mentioned earlier, the views of Zuo Dapei exhibit distinct characteristics of the priority of the state. He emphasised that, in the processes of marketisation, the interests and security of state ownership as representative of the nation should take precedence.⁶⁶

The New Left and the economic ideology from the Spring and Autumn period also share a significant emphasis on the state's intervention in the economy as a statecraft approach. These similarities underscore a direct relevance in Chinese economic thought that prioritises state intervention and control as essential mechanisms for achieving a 'great unity' and stability in China. In a way very similar to the Legalists, the Chinese New Left economists advocate a robust state that actively addresses the unacceptable inequalities and injustices resulting from market-oriented reforms. They support the 'state capacity' theory, emphasising the need for a strong central government to regulate the market, prevent regional protectionism and fragmentation, and curb monopolistic practices and unfair competition.⁶⁷ As early as 1993, Wang Shaoguang and Hu Angang published *A Report on China's State Capacity*, in which they argued that a strong state is a prerequisite for

economic reform. They claim that decentralisation in the reforms threatens to undermine the managing capacity of the state in economic affairs and even the future of the Chinese state.

More importantly, with respect to the Chinese state as a 'Great Unity', it is the decisive role of statism and nationalism in economics as a statecraft that they uphold. Generally speaking, these are strong nationalist or statist inclinations. Hence, the Chinese New Left's claims of so-called economic democracy have virtually no substance when liberal private property rights are of secondary importance.

In this regard, the Chinese New Left were in fact nationalists who sided with Mao. Benjamin Schwartz analysed the nationalist origins of Maoism: during the wartime period, Mao began to demonstrate independence from Moscow, and his vigorous promotion of the Sinicisation of Marxism was essentially 'the Chinese Communist Party's ability to ultimately harness nationalist sentiments for its own cause ... no longer content to explain his strategy in terms of the general theory of the "United Front" as proclaimed by Moscow, but eager to demonstrate that China's developmental changes signified a unique and creative development in the course of human history.'⁶⁸ Zheng Yongnian also argued that '[n]ationalism has been used by the Chinese Communist Party as a response to the decline in Maoist faith, and nationalism is ready to become another vision of the CCP ideology'.⁶⁹ Regarding the Chinese New Left's integration of anticolonial and anti-imperialist thought into their critique of globalisation, I believe they remain confined within the 'saving the nation from peril' mental framework that has characterised Chinese intellectual thought since the late 19th century. This perspective views China as a victim of Western exploitation, thereby prioritising national independence and self-strengthening as the primary objectives for the country's economic development. For instance, in 2000, New Left leader Han Deqiang published *The Crash: The Global Trap and China's Realistic Choice*, where he critiques the optimistic expectations surrounding China's WTO accession and the perceived efficiency of the market, referring to it as 'market romanticism'.

The stress on state-individual antagonism, interventionism, and statism⁷⁰ shows that the Chinese New Left economists follow a millennium-long reoccurring practice—the basic logic of state participation in the market.⁷¹ This cultural understanding of societal and economic relations naturally leads the Chinese New Left economists to a distinct understanding of property rights and market liberty within an economic structure.⁷²

7. Conclusion

My conclusion is not to say China's modern intellectual thoughts are predetermined by its history. I show a nation's economic thought is largely constrained by its historical institutions. Different historical stages give rise to distinct economic ideas, but certain thought reoccur as a result of the path dependence of local institutions. This somehow reflects one side of Douglass North's important finding: the establishment of effective institutions is not a universal phenomenon of convergence or equilibrium, but rather a non-equilibrium phenomenon characterized by path dependence. As Weber introduced in her 2021 book about China's early reform intellectual debate, rightly manage market under state's control reoccurred throughout Chinese history. Weber claimed the 1990s was the period when neoliberals dominated, and marketization principles were set. I agreed with her point. However, Weber did not intend to separate market and ownership in those debates. In China, marketization and privatization have different weights in thoughts. As I proved, free market principles were relatively easier learned from the West while privatization has been the hard problem as it touches upon the core of fundamental social institution.

This is due to different perspectives ownership, as analyzed in section 6. The concept of public enjoyed higher status in the Chinese civilization concept. Hence, state as controlling body in a subordinate market (not autonomous entity) is a path dependence in the evolution of economic thought. This creates the ideological clash eventually focused on the distinction between public and private ownership in 1980s. The debate over property rights reform persisted throughout the 1990s. Cui Zhiyuan's two articles in 1994 and 1996 (see above section 3) spurred a group of supporters to express similar views, which in turn provoked a strong backlash from liberals. This debate unfolded in publications such as *Reading* and *Twenty-First Century* and is considered the marker of the emergence of the New Left.

In the context of China's complex historical evolution, the Lang-Gu controversy of 2004 emerged as a pivotal moment in the nation's economic discourse. This debate brought to the forefront critical issues regarding property rights and the role of state-owned enterprises (SOEs) within China's rapidly changing market economy both in intellectual discourses and mass media. As one of the most significant economic events of that year, it

captured widespread public interest and ignited intense discussions among economists, policymakers, and the general populace.

The controversy illustrated the ongoing tensions between proponents of privatization and advocates for state control, reflecting deeper ideological divides within Chinese society. It not only highlighted the competing visions for China's economic future but also served as a crucial point of reflection on the implications of ownership structures for economic development. The Lang-Gu debate marked a significant phase in the broader dialogue surrounding economic reform and the restructuring of state-owned enterprises, representing a peak in the intellectual confrontation over private ownership and its impact on China's socio-economic landscape.

China's New Left economic thought is currently still prevalent in the country, and we might even regard it as a core component of the state-centred economic model in the Xi era. According to our analysis, the intellectual origins of New Left economic thought are deeply rooted in traditional Chinese Legalist economic philosophy. Thus, New Left economic thought is not only a response to Western economic theories but also an inheritance and development of traditional Chinese thought. In contemporary China, this state-centred economic model continues to play a crucial role, influencing national policy and economic practice.

¹ In the 1980s, MBOs became popular in the major market economy countries in Europe and the United States, adapted mainly to the situation where the value of the enterprise is undervalued by the market or the reasonable business adjustments of the enterprise are constrained by the controlling party. Since the 1990s, MBOs have been introduced into China's economic life as a form of property rights system reform and restructuring of state-owned enterprises.

² 张建华, '警惕管理层收购,' *证券市场周刊* [Zhang Jianhua, 'Wary of Management Buyouts'], *Securities Market Weekly* (23 November 2002).

³ Qin Hui. 2005. "MBOs, Yes; "Year of the MBO," No: Some Basic Issues in Property Rights Reform." *The Chinese Economy*, 38 (5): 55–65. doi:10.1080/10971475.2005.11033533.

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⁵ 邓聿文, *非常交锋: 国企产权大讨论实录* [Deng Yuwen. *A Very Good Fight: The Great Discussion on State-owned Enterprises Property Rights Reform*]. Haiyang Press, 2005.

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There are four stages of mix ownership reform since 1978: (1)1978-1992: Exploration of mixed forms; (2) 1992-2003: phase of mixed capital; (3)2003-2013: Adjusting phase of mixed ownership; (4) 2013-present: Phase of mixed mechanisms.

⁷ 张维迎, '张维迎回应郎咸平: 善待为社会做出贡献的人' [Zhang Weiyong Responds to Lang Xianping: Treating Those Who Contribute to Society Well].

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¹⁶ Cf. Xu Lei's reconstruction of Zuo's argument in 徐雷, '论中国'新左派'经济学的兴起' [Xu Lei: 'On the Rise of Chinese "New Left" Economics']. *Shandong Fiscal Institute Journal*, no.4 (Issue 78), 2005.

¹⁷ Zuo Dapei, *No More Selling - Debunking the Myth of Corporate 'Restructuring'*. Beijing: China Finance and Economy Press, 2006.

¹⁸ Ibid.

¹⁹ Cui Zhiyuan is a professor at the School of Public Policy and Management, Tsinghua University, Beijing. He received his PhD in Political Science from the University of

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²⁰ Wuyouzhixiang is a political and economic commentary website in the People's Republic of China that promotes leftist thought. The site was opened in 2003 by the private company Beijing Wuyouzhixiang Culture Communication Limited, with founders including Beijing Normal University Lecturer Fan Jinggang and Han Deqiang. Its main contributors and authors also include Yang Fan and Zuo Dapei.

²¹ 崔之元, '制度创新与第二次思想解放' [Cui Zhiyuan. Institutional Innovation and the Second Ideological Emancipation], *Twenty-first Century*, 1994, issue 8, No.24; 崔之元, '鞍钢宪法与后福特主义' [Cui Zhiyuan. The Angang Constitution and Post-Fordism], *Reading*, 1996, (4).

²² See Cui Zhiyuan and Lu Mingjun: Interviews on the Ideological Debate of the 1990s. 2020-09-24 Source: 'Experimentalist Governance'. Zhang Jinfu, former secretary-general of the Central Leading Group for Finance and Economics, after reading Cui's advocacy of 'joint-stock co-operation' in 'Institutional Innovation and the Second Ideological Emancipation' in 1994, wrote a letter to Chinese Ministry of Agriculture in 1995. Afterwards, Ministry of Agriculture withdrew the document halting the continuation of such reforms in rural China. This was recorded in the *Collected Works of Zhang Jinfu* (Beijing: zhongguo caijing chubanshe, 2004).

²³ Wu Jinglian and Qian Yingyi are famous professors at Tsinghua University, and they played an important role in designing Chinese economic reforms.

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²⁷ The *Angang Constitution*, enacted in 1960 for the management of corporations, embodied the Communist ideology regarding shared labour among all personnel. Here, a manager and a manual labourer work together at the furnace.

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Sonderforschungsbereich/Transregio 294

STRUKTURWANDEL DES EIGENTUMS

This paper explores the intellectual roots of China's state-centred economic model during the Xi era, tracing its origins to Chinese traditional Legalist economic thought. The focus is on the period since 2000s. Before this period, the introduction of Management Buyouts (MBOs) in the 1990s were intended to reform state-owned property rights but led to various issues such as 'black box' operations. Prominent intellectual debates, including the Lang-Gu Controversy, highlighted the ideological conflicts in Chinese economic reform. The rising New Left economists advocated stronger state intervention and criticised privatisation. This ideological struggle between privatisation and state-centred intervention reflects broader debates on the role of state in economic governance.

By analysing these discourses, this paper sheds light on the shift towards state-centred approaches in China's path of economic thought development, emphasising the blend of market mechanisms with robust state regulation. It also delves into the intellectual heritage of traditional Chinese Legalist thought, which emphasises the importance of strong state control and centralised power for strengthening the Chinese nation, ensuring order and economic stability. Understanding these debates provides valuable insight into China's current economic strategies and offers comparative perspectives for global economic policy discussions.