

# The Shifted Economic Study Focus, New Development Trends and the Forming of Chinese Economics

---

*ZHOU Wen*

**F**our decades of reform and opening up have witnessed the rise of a “Chinese miracle” unique in the history of economic development. Only several countries (South Korea, South Africa, Thailand, and Singapore, etc.) have managed to create such economic “miracles.” Some economists forecast that China will grow at a high speed for another 30 years; some even expect China to be the largest economy in the near future. To unravel this “Chinese riddle,” economists around the world have come up with various explanations. A common one from the Western world attributes the miracle to China’s market-oriented reform. In apparent conformity

---

ZHOU Wen is Professor of Chinese Institute, Fudan University

with the traditional logic of mainstream Western economics, this explanation appears too simple to analyze what is happening in China since it is difficult to explain Chinese phenomena using Western economics. In another word, China's economic miracle poses an enormous challenge to the Western economics. Behind the miracle, there must be an economic logic totally independent from contemporary mainstream economics, hence challenging the universality of economic theories. The calling for "Chinese economics" is both a pursuit for more explanatory economic theories and a desire for the universality of economics. Therefore, it is a must for the Chinese economics to follow the development trends of economics. It has to make realistic explanations on given Chinese issues as well as propel the transformation of economics methodology and hence drive the overall upgrading of economic theories.

### **The shifted economic study focus**

Economic theories logically explain the economic reality and the real world, and a changing world requires changing theories. From a logical and historical view, economics originates from the act of exchange, without which there would have been no economics. With exchange as the start, economics focuses on four areas, i.e., institutional environment (political, legal and cultural environments), "human-human" relationship (social relation), "human-object" relationship (productive relation), and "object-object" relationship (technical application). The age of market economy began only when exchange became dominant

in the commodity economy instead of being sporadic or occasional. The transformation derived partly from the changing political, legal, and cultural environments. It, in turn, gave rise to changes in social relation, productive relation and technical application. Scholars of politics, ethics and philosophy began to systematically study the market economy. And then economics came into being as an independent science: classical political economy.

Before the 20th century, Europe was the heartland of economic studies in the above mentioned four areas and mostly focused on the first two. In the 20th century, the epicenter of economic studies shifted, along with the economic center, across the Atlantic Ocean to the United States. Neoclassical economics became a mainstream camp, laying more emphasis on “human-object” and “object-object” relationships. Thanks to the rise of the American economy and its leading place in the world, economics was gradually “Americanized.” Neoclassical economics centered on marginal analysis was regarded as the economics of the “American age.” Faced with the challenge of the 1930s economic crisis, the Keynesian revolution occurred, dividing economics into “microeconomics” and “macroeconomics.”

Since the late 20th century, “human-human” relationship has become increasingly important to economic development. Driven by technical advances, the wave of new economy has swept across the world. Material production has dwindled in terms of both value and people involved despite its rising output. Knowledge production, technical innovation and service exchange took a leading position.

The technological output, knowledge economy, service economy account for a major proportion of developed economies. Marginal analysis is less applicable for non-material production than for material production or consumption, thus leading the focus of economic studies to “human-human” relationship and institutional environment again. As mentioned above, the economic study epicenter first shifted from Europe to the United States, with its focus shifting from institutional environment and social relation to material production and technical progress. The second shift is expected to occur from the United States to China, with its focus returning to institutional environment and social relation. The unprecedented institutional transformation and economic miracle in China will provide a strong impetus for the shift.

### **New development trends**

Given the change of focus, two trends may emerge in the development of economic theories. First, the subjects of economic studies may be divided into two categories: institutional environment and “human-human” relationship, as well as “human-object” and “object-object” relationships, separating economics into “social economics” and “material economics.” Second, there may emerge the distinction between the pattern-oriented theory and instrumental theory.

#### *Division between social economics and material economics*

The applicability of theories depends on conditions. Analysis tools differ in their applicability, thus it is difficult to find a universal tool in the short term. Economic theories

may be divided into “social economics” and “material economics” as a result. The former studies the change mechanism of institutional environment and “human-human” relationship, using historical analysis, human behavior analysis and game theory as major tools; the latter studies “human-object” and “object-object” relationships based on marginal analysis.

Now, as more and more economists have realized the harm of the sole dominance of neoclassical economics, they began to promote diversification of research methods. The separation of social economics from material economics will place development, economic development as well as economic development and institution at the core of economic studies. These issues, closely related to history, culture and politics but long neglected, deserve greater attention from economists, especially topics such as the origin of institution, the impact of institution on economic development, and whether institution is a cause or a result of economic development. These are promising areas of study in the next decade or two that will constitute an important part of mainstream economics.

*Division between pattern-oriented theory and instrumental theory*

Economic theories cannot reveal economic patterns and serve as tools at the same time. In practice, the significance of social sciences theories lies not in revealing patterns but in the impacts on people’s thoughts. In other words, many theories function merely as a tool.

Natural sciences and social sciences differ in this aspect. Natural sciences study the “object-object” relationship and

laws of “objects” and are applied to “objects,” therefore the theories of natural sciences may reveal laws and serve as tools at the same time. Social sciences, however, study “human-human” and “human-object” relationships as well as human behavior. The theories are applied by “people” and to “people” so whether they reveal laws is uncertain.

A theory that explains human behavior and the real world can both reveal patterns and work as a tool; a theory that bears little correlation with human behavior and the real world is only tool, reflecting an inconsistency between its function and its content. It is only a tool to build a mechanism. Therefore, economic theories may be classified into two camps: theories that reveal objective patterns and theories used as a tool to fulfill a purpose.

The theories of modern mainstream economics are mostly created to reveal economic patterns but end up serving as tools. When the public realize that a theory has nothing to do with a practical pattern, the theory becomes instrumental tool that is used to “answer” a question and people do not care whether the answer is correct. As a hot research area, economics faces a dilemma. On the one hand, economists believe that their theories reveal the “truth” that helps people reach their goals. On the other, the public (participants in the economy) understand that patterns do not exist in economic theories (or theories only reveal part of patterns) but theories provide bases or guidance for their behaviors. Thus, economics becomes an “explanatory science.”

From the perspective of evolution, the pattern-oriented theory is bound to turn into instrumental theory as a result

of changed public opinions, and economic theories must innovate to maintain its vitality. In the long term, public opinions, including their values, moralities and ideology will go through historic changes. A theory may reveal a pattern to the public in some cases. As public opinions change, “people”—the subject that the theories may impact—will also change. That is to say, the actual views of the public deviate from those assumed by the theories. The theory thus becomes a tool instead of revealing a pattern before a more pattern-oriented theory emerges. Innovation of economic theories goes along with the changing views of “people” in an evolving process.

### **Rising of Chinese economics**

As China has entered a critical stage of economic reform and social transformation, it is striving for rejuvenation through the market-driven reform. With the transition to modern society inseparable in the development of market economy, Chinese economics is expected to guide China’s economic reform by interpreting “Chinese stories” and innovating existing theories. After the global financial crisis in 2008, the world has witnessed China’s peaceful rise and the decline of Western civilization. When new issues arising from the financial crisis and globalization have plunged the world into uncertainty and disorientation, the historical mission of Chinese economics is to break mankind’s “cognitive shackles”—revealing the secret to China’s economic success, and sharing the experience to other developing economies. Only by forming profound theories in those two regards

can Chinese economics become a discipline unto itself that guides the development trends of economics and stands out as a leading school in the future of economics.

*Emerging of Chinese economics*

Thanks to China's rapid economic reform and progress of socialism with Chinese characteristics, Chinese economists have the privilege of a broader stage and better conditions for research. Meanwhile, Chinese and foreign economists are facing huge challenges: Existing theories have failed, to some extent, to predict the performance of China's economy due to little knowledge of its mechanism. What's more, new challenges have emerged in recent years as China's economy entered a new stage. For example, how to overcome the middle-income trap after rapid growth? How to push forward the economic restructuring and urbanization? How to balance the long-standing overcapacity and high-speed economic development? How to balance traditional and emerging industries? How to deal with the relationship of China's macroeconomic policies with other countries' after China's rise? Any attempts to solve those issues by Chinese economists must be based on China's national conditions and grounded in reality.

In the 21st century, China is expected to become the epicenter of economic studies in the future as it becomes the center of world economy, which will put Chinese economists to the fore of global economics and usher in the age of Chinese economics. The world is going to be impressed by China's economic and political reform and the adjustment of the global political and economic orders following China's

rise.

Technically, Chinese economics in the real sense should go beyond taking an inventory of China's economic policies and practices that are different from those of the West, and should further discover new theoretical premises to replace Western ones such as the "rational man." After that, it should establish a set of theories covering subject behavior, resource allocation, and macro regulation. The new premises are different because of a different culture: China represents the Confucian culture while the current mainstream economics is built on Christianity; China is different from the West for being a socialist state anchored in Marxism. From the perspective of culture, Chinese economics is a new theoretical paradigm that integrates the traditional Chinese culture, Marxism and mainstream economics.

In a word, Chinese economics, based on the economic reality, must be able to solve the domestic problems, establish a universal development model that will enlighten other countries, and integrate the essence of the Chinese culture into its theoretic studies to supplement and improve the existing theoretic paradigms.

#### *Universality of Chinese economics*

The ultimate goal of Chinese economics is to promote the evolution of research paradigms and the universality of economic theories. Therefore, Chinese economics must follow the two trends of economic theories, i.e., the division between social economics and material economics and that between pattern-oriented theory and instrumental theory.

The challenges in China's reform have provided a

fascinating case study that will help propel the progress of economic theories. Only by resolving the ontological issues can Chinese economics follow the above two trends. In this regard, the practices of the German Historical School provide a lesson: What makes a theoretical school unique is the way it is grounded in the country's history and reality and its unique thinking, making sure that its abstract theories and practical application are not in conflict. Just like the German Historical School, the American School criticized the then mainstream economic theories and established a whole set of protectionist national economic theories and policies after the rise of the U.S. economy. These theories, concerning how backward countries, especially developing countries, could catch up with and even go beyond developed ones, were conducive to the rise of Germany and Japan. However, it is thought-provoking that those theories, to which the US owed its success, are often shunned or vilified by today's mainstream American economists.

Reproduced with permission of copyright owner. Further reproduction prohibited without permission.