The Non-Monetary Significance of Political Entities to Economic Order under the Chinese Model

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Abstract. This research investigates the subtle role of political entities in shaping economic order using the Chinese Model, highlighting the importance of non-monetary forces. By deconstructing the Chinese Model's political economy, the paper identifies the model's distinguishing features, the critical function of political entities, and the strategic use of nonmonetary means. It examines the ways by which these institutions impact economic order, such as governmental advice, legal regulation, and moral incentives, as well as how these mechanisms promote market order, control economic activity, and encourage corporate social responsibility. This paper highlights the effectiveness of non-monetary interventions in China's economic order through detailed case studies, such as the development of new energy sectors guided by policy, environmental protection through legal regulation, and corporate innovation motivated by moral incentives. The findings highlight the potential of non-monetary measures used by political organizations to steer economic development and governance, providing insights that could impact policymaking outside the Chinese setting.

Keywords: Chinese model, political economy, non-monetary mechanisms, economic order.

1. Introduction

Since the beginning of the twenty-first century, the advent of new global powers, particularly China, has posed a significant challenge to established Western powers such as the United States and Europe, which have long been plagued by political and economic problems. Importantly, during this period, Chinese political entities have effectively steered the change and upgrading of the economic structure via a variety of monetary and non-monetary mechanisms. They have played, an important role in preserving social stability, encouraging technical progress, and protecting the environment.

In the context of neoliberal economic theories, money and the mechanisms of economic order are seen as the core of the economic system. However, the international financial crisis since 2008 urges Chinese government-business interaction which has been relatively balanced to incline to government intervention [1]. While existing literature extensively explores China's economic milestones and the monetary significance of political entities in shaping economic frameworks, there remains a notable gap in understanding the non-monetary influence exerted by these entities within the economic order. The "Chinese Model", as a unique developmental pathway, has not only achieved remarkable economic successes but also demonstrated the profound non-monetary influence of political entities in shaping economic order. To date, in various dimensions of domestic economic order, China has been neither purely conservative nor radically revisionist, but progressively reformist. The Chinese Model offers a different perspective, emphasizing the dominant role of political entities in economic activities and adopting a governance model that combines informal, policy-driven, soft law, and relational orientations. The successful practice of this model is significant for understanding non-Western development pathways and how states can effectively manage economic order in a globalized context.

Despite acknowledgment of the role of politically driven macroeconomic regulation in fostering economic growth, there remains a scarcity of systematic analysis on the operational dynamics of political entities under the Chinese model and their consequent impact on the international economic landscape. This paper endeavors to bridge a notable gap in existing scholarship by conducting a comprehensive and rigorous analysis of the various non-monetary strategies implemented by political entities within the framework of the Chinese economic model. Such measures, often overlooked in conventional economic analyses, play a critical role in sculpting the economic order within the nation. Our examination is rooted in a multifaceted approach that considers both the historical evolution and the contemporary application of these strategies, thereby shedding light on their intricate mechanisms and the underlying rationale. Additionally, this offers a new perspective for international economic policymakers, scholars, and practitioners, examining the applicability of these measures in international economic cooperation and their role in global economic governance.

Commencing with an overview of the Chinese Model's core attributes and the mechanisms through which political entities influence economic regulation, the paper will then illustrate, via case studies, the tangible non-monetary impacts of these entities on economic order. Subsequently, it will assess the global ramifications of such impacts and forward pertinent policy recommendations. The conclusion will offer reflections on potential future research avenues, further exploring the intricate interplay between political entities and economic order under the Chinese Model.

2. Analysis of Political Economy under the Chinese Model

2.1. Characteristics of the Chinese Model

The "Chinese Model" concept was first articulated by Western researchers, most notably futurist Doris Naisbitt and her husband, John Naisbitt. In their foundational work, "China's Megatrends," the Naisbitts outline the contours of this paradigm, arguing that China's rise to the world arena differs from historical precedents of great power emergence in several significant ways. They claim that China's emergence was distinguished by its quickness, generally peaceful nature, and important role in driving the Asian region's advancement, much like a dynamic engine. This analysis concludes with the argument that the "Chinese Model" has the potential to cause substantial global transformations, challenging and changing prevailing paradigms of economic and political development. Despite its significant influence, a singular, definitive description of the "Chinese Model" remains elusive. Broadly, it encapsulates a development strategy that has emerged post-China’s reform and opening-up period, characterized by phased economic reforms, robust control by political authorities, and a strategic emphasis on state-led development initiatives.

Politically, the leadership of the Communist Party of China (CPC) is the most essential feature of socialism with Chinese characteristics, with political entities playing a core role in economic decision-making. Economically, it is distinguished by the state's oversight of critical industries and resources, juxtaposed with a degree of flexibility and openness in other sectors of the economy. Socially, the Chinese Model is geared towards ensuring stability and harmony, actively working to resolve social disparities through comprehensive social security systems and public services.

2.2. The Role of Political Entities

At the heart of the "Chinese Model" lies a socialist system imbued with Chinese characteristics, a framework that includes several key features: the CPC as the governing body, a predominant state-owned sector alongside a burgeoning mixed-ownership economy, and the significant influence of government-devised plans and policies on economic development, all while acknowledging the market's essential role in promoting enterprise efficiency and optimal resource distribution [2].

Therefore, the term "political entities" primarily denotes the Communist Party of China (CPC) along with its principal political institutions. Occupying a pivotal role within the Chinese political architecture, these bodies are tasked with the design and articulation of national strategies, policies, and legal frameworks, in addition to supervising their implementation and execution. As China navigated the transition from a predominantly centralized planned economy to a socialist market economy, the phenomenon of government-led, factor-driven economic development emerged as a defining feature of this era of economic evolution and transformation.

The government's duty includes not only "helping hand" and "invisible hand", but also "grabbing hand" [3]. On one hand, the government's leadership, acting as the decisive force in socio-economic development, can mobilize and aggregate various resources serving economic development, pushing through the basic strategic planning of national economic development via strong execution by state-owned or collective enterprises, achieving a certain level of efficiency in economic development. Government-led economic development has strong emergency response capabilities in addressing socio-economic and financial crises and natural disasters. On the other hand, this model of development, heavily reliant on government direction and intervention, has its downsides. It risks overwhelming the market's regulatory mechanisms, leading to decreased market flexibility, overcapacity in certain industries, rent-seeking behaviors, and distorted socio-economic structures. Furthermore, the expansive role of government in economic operations has contributed to significant debt accumulation at the local government level, reflecting potential long-term sustainability challenges.

2.3. Application of Non-Monetary Means

Chinese political entities impact the economic order through non-monetary interventions, which include economic, legal, and moral incentives. Economic interventions manifest as fiscal policies and planning, which reflect governmental economic policy goals. Legal interventions entail the imposition of economic regulations by the government.

Economic interventions seek to regulate the national economy at the macroeconomic level by deliberately applying value rules and economic mechanisms such as price, taxation, credit, and wages. These mechanisms, which serve as macroeconomic control instruments, support policies such as taxation, credit management, interest and exchange rate adjustments, commercial transactions, pricing strategies, poverty alleviation, and industrial development.

Legal interventions use legislative and judicial powers to regulate economic relationships and activities, with the goal of achieving macroeconomic stability. Such measures safeguard both public and private assets, protect the rights and interests of various economic entities, and uphold economic order through economic legislation and judicial processes. Economic legislation entails developing regulations to protect market participants' interests, whereas economic judiciary entails resolving economic disputes, maintaining market integrity, and prosecuting economic offenses.

Moral incentives use social ideals and ethics to affect both corporate and individual conduct. By leveraging public opinion, this method defines societal norms for professional conduct within firms, arguing for social responsibility. It encourages employees to connect their behavior with societal approbation, developing an honor culture and adhering to socialist corporate ethics.

To nurture a market economy that is consistent with the Scientific Development Concept, Chinese political entities prioritize economic and legal measures, complemented by moral incentives, while optimizing the overall value of non-monetary interventions.

3. Non-Monetary Influence Mechanisms of Political Entities on Economic Order

3.1. Policy Guidance and Market Order

The strategies and tools used by political entities at the non-monetary level are diverse, mainly including industrial policies and macroeconomic regulation. China's industrial policies play a pivotal role in guiding the economy towards high-value sectors. By providing targeted support to industries deemed strategic, such as renewable energy, AI, and biotechnology, the government aims to catalyze structural transformation and technological innovation. Support mechanisms include tax incentives, fiscal subsidies, and credit support, each tailored to reduce the operational costs and risks associated with high-tech development. This deliberate focus on emerging industries not only propels China to the forefront of global innovation but also aligns with its broader goals of achieving environmental sustainability and economic resilience.

Beyond industrial policy, macroeconomic regulation forms the second pillar of China's non-monetary approach. This includes the use of monetary and fiscal policies to adjust interest rates, exchange rates, government spending, etc., influencing economic activities to achieve growth, employment, and price stability. For example, the Chinese government releases liquidity by lowering the reserve requirement ratio and alleviates corporate burdens through tax cuts and fee reductions in response to downward economic pressures, showcasing the practical application of non-monetary means. These measures ensure liquidity in the market, helping businesses navigate through periods of financial stress without resorting to drastic monetary interventions. Another example is, in order to establish a reasonable range for economic management, the Innovation of Macro-Control sets the growth rate and employment goals as the lower limit and the inflation rate goal as the upper limit. If the economy remains within the range, short-term economic stimulus measures will not be implemented; instead, economic system reform and economic structural adjustment will be prioritized [4].

3.2. Legal Regulation and Economic Behavior

Legal regulation is a mechanism by which political entities use legislative means to regulate and constrain economic behavior. By establishing and improving the legal system, political entities define the rights and obligations of market participants, ensuring fair market competition. In China, the legal landscape is predominantly governed by civil and commercial law (later shortened as CCL) and economic law, each serving distinct yet complementary functions in the market economy.

CCL provides the foundation for private transactions, defining the legal status of business entities, and setting the rules for contracts, property rights, and corporate governance. This body of law is essential for the protection of private rights and the facilitation of commerce, laying down the legal groundwork for market participants to engage in economic activities confidently and securely. On the other hand, economic law encompasses a broader spectrum, addressing the relationship between market participants and the state, and regulating sectors and activities that are of strategic importance to the national economy. It includes legislation on antitrust, environmental protection, and sector-specific regulations, aiming to align individual economic pursuits with broader societal goals. Economic law thus plays a pivotal role in guiding the market towards sustainable and equitable growth, ensuring that economic development does not come at the cost of social welfare or environmental degradation [5].

The fairness and justice of social and economic growth may be ensured by combining the two types of legislation, as can the long-term development advantages of the entire community.It is in line with both the overall trend of contemporary legal norms and the state in which the market economy is now developing. The regular functioning and sustained growth of China's market economy are guaranteed by these two types of rules, which support one another [6].

3.3. Moral Incentives and Corporate Social Responsibility

Social identity theory indicates that the identity of a per- son partly stems from his or her social identity, and persons attribute faith, values, afection, and meaning to group members [7]. This psychological underpinning forms the basis for how political entities can effectively employ moral incentives to shape corporate and individual behaviors towards greater social responsibility and ethical conduct.

Political entities wield moral incentives as a strategic tool to instill and reinforce social values and moral standards within the business community and society at large. By recognizing and celebrating the contributions of enterprises and individuals towards societal well-being through awards, public acknowledgment, and educational initiatives, these entities not only commend positive actions but also set a standard for others to follow. This approach to motivation, emphasizing recognition over material gain, nurtures a culture of corporate social responsibility (CSR), encouraging businesses to align their operations with broader societal goals.

In China, the push towards "green development" exemplifies the government's commitment to leveraging moral incentives to drive environmental stewardship among businesses. This initiative encourages companies to integrate environmental protection and resource conservation into their core operational strategies, balancing economic ambitions with ecological sustainability. The emphasis on green development serves as a catalyst for innovation in sustainable practices, urging companies to explore and adopt cleaner, more efficient technologies and processes. Moreover, the promotion of CSR through moral incentives extends beyond environmental concerns, touching on various aspects of social welfare, including employee rights, community engagement, and ethical governance. By fostering a sense of responsibility and accountability in the business sector, moral incentives contribute to the creation of a more harmonious society, where economic growth does not come at the expense of social and environmental well-being.

4. Case Study: The Application of Non-Monetary Means in China's Economic Order

4.1. The Development of New Energy Vehicles under Policy Guidance

The Chinese government's strategic approach to the development of the New Energy Vehicle (NEV) sector exemplifies the effective use of non-monetary means to guide economic transformation towards sustainability. Through a combination of tax incentives, subsidies, low-interest loans, and the implementation of mandatory emission standards, China has significantly lowered the barriers to entry and operational costs for NEV enterprises, fostering a vibrant market environment.

A key component of China's success in the NEV market has been the detailed and evolving nature of its policy framework. Initially, substantial subsidies were offered to reduce the purchase cost for consumers, incentivizing the adoption of electric vehicles. However, as the market matured and subsidy dependency became a concern, the government gradually shifted its focus towards supporting technological innovation and infrastructure development, such as charging stations, to ensure sustainable growth. This transition highlights the government's adaptive policy approach in response to market dynamics and industry needs.

The journey of NEV policy implementation was not without challenges. Instances of subsidy fraud prompted stricter regulations and monitoring mechanisms, showcasing the government's commitment to transparency and efficiency. Moreover, the phased reduction and eventual phase-out of direct purchase subsidies have been planned to encourage the industry to compete on innovation and quality, rather than relying on government support. This policy pivot reflects a strategic move to enhance the competitiveness of China's NEV sector globally.

Between 2013 and 2017, sales of NEVs in China experienced an explosive growth, with an annual average increase of 190%. Currently, the scale of China's NEV market has surpassed the combined total of the United States and the European Union. Intriguingly, unlike the traditional automobile industry, which is predominantly led by foreign manufacturers, 94% of NEV sales in China are attributed to domestic manufacturers [8]. This is not the result of import market restrictions, as the NEV market is arguably more open to foreign participants than the traditional automobile market. Instead, it indicates that the number and quality of Chinese NEV and battery manufacturers have rapidly evolved and successfully met market expectations, partly due to effective governmental policies. These policies include, but are not limited to, allocating increasing resources for research in targeted areas; intervening strongly in the market for the benefit of domestic companies; mandating foreign companies to transfer technology; formulating policies favorable to innovation; enhancing institutional efficiency; promoting national technological sufficiency; and encouraging overseas technology search and technology export investments. Overall, the NEV industry is undeniably one of the most successful cases in China's innovation policy.

4.2. Legal Regulation and Environmental Protection

China's legal regulations on environmental protection have become increasingly stringent. The country began to address environmental pollution seriously starting from the early 1970s. In 1983, the State Council of the People's Republic of China declared environmental protection as one of its two central state policies. The State Development Planning Commission (SDPC) and the Ministry of Environmental Protection formulated a sustainable development strategy in 1996. Moreover, over the past few decades, China has implemented numerous stringent environmental protection laws and legislations. For example, China has enacted 9 environmental protection laws and regulations, including the Environmental Protection Law, the Environmental Impact Assessment Law, and the Law on Promotion of Clean Production; 143 natural resource protection laws, including the Water Law; 47 environmental management laws; and 470 environmental protection standards, norms, and technical economic policies [9].

Currently, China has promulgated and implemented approximately 35 standards for the discharge of water pollutants, such as the "Comprehensive Sewage Discharge Standard" (GB8978-1996), "Standards for the Discharge of Pollutants from Livestock and Poultry Breeding" (GB8596-2001), and "Standards for the Discharge of Pollutants from Urban Sewage Treatment Plants" (GB18918-2002) [9].

These legal regulations set clear limits on pollution emissions and stipulate corresponding legal liabilities. Through legal means, the government not only raises the environmental awareness of enterprises but also promotes the research, development, and application of clean production technologies. This case illustrates the importance of legal regulation as a non-monetary instrument in fostering a balance between economic activities and environmental protection.

4.3. Moral Incentives and Corporate Innovation

The role of moral incentives in shaping corporate behavior towards greater innovation and social responsibility is increasingly recognized as a pivotal aspect of China's economic governance. Anchored in social identity theory, which posits that an individual's behavior is partly derived from their social affiliations and the values upheld within these groups, China leverages moral incentives to align corporate actions with broader societal goals. This approach fosters a culture where businesses are not only agents of economic activity but also contributors to social well-being and environmental sustainability.

Central to the application of moral incentives is the use of recognition and awards to highlight and commend the efforts of companies in areas such as environmental conservation, social responsibility, and technological innovation. Initiatives like the "Low-carbon Environmental Protection Leadership Award" and the "National Environmentally-Friendly Enterprise" certification play a critical role in setting benchmarks for corporate behavior [10]. These awards serve as a public acknowledgment of companies' commitments to ethical practices and sustainable development, encouraging a competitive environment where firms strive not only for profitability but also for positive contributions to society.

The impact of moral incentives on corporate behavior is profound, with many companies increasingly integrating CSR and sustainability into their core business strategies. This shift is driven by the recognition that sustainable practices contribute significantly to long-term success and brand reputation. Furthermore, as consumer awareness and demand for responsible business practices grow, companies motivated by moral incentives are better positioned to capture market share and achieve competitive advantages. This alignment of business objectives with societal values underscores the effectiveness of moral incentives in promoting corporate innovation and responsibility.

5. Conclusion

This paper deeply explores the influence of political entities on the economic order at the non-monetary level under the Chinese Model, revealing their key role in promoting economic development, maintaining the stability of the economic order, and advancing social harmony through policy formulation, legal frameworks, and social governance. The paper finds that these means have not only produced significant effects domestically but also played a positive role in international economic cooperation, especially in regional economic integration and global economic governance.

The paper also proposes a series of policy recommendations aimed at optimizing domestic economic governance structures, strengthening international economic cooperation, and enhancing China's influence in global economic governance.

Further research could be developed in the following aspects: continue to deepen the case analysis of non-monetary means under the Chinese Model, especially their applicability and effectiveness in different national and cultural contexts. Research should focus on how these means address global economic challenges, such as climate change and unequal resource distribution, and explore how international cooperation can promote the sustainable development of the global economy. Additionally, with the rise of the digital economy, research should explore new non-monetary means, such as digital currencies and blockchain technology in economic governance, and how these technologies might impact the future economic order. Through these studies, we can better understand the role of political entities in the context of globalization and provide theoretical support and practical guidance for constructing a more inclusive, balanced, and sustainable international economic order.

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