

CHINA PERSPECTIVES SERIES

# Government Foresighted Leading

Theory and Practice of the World's  
Regional Economic Development

Yunxian Chen and Jianwei Qiu



# **Government Foresighted Leading**

Theory and Practice of the World's Regional  
Economic Development

**Yunxian Chen**  
**Jianwei Qiu**

This book is published with financial support from Chinese Fund for the Humanities and Social Sciences

Translated by Heming Yong and Jing Peng

First published 2017

by Routledge

2 Park Square, Milton Park, Abingdon, Oxon OX14 4RN

and by Routledge

711 Third Avenue, New York, NY 10017

*Routledge is an imprint of the Taylor & Francis Group, an informa business*

© 2017 Yunxian Chen and Jianwei Qiu; translated by Heming Yong and Jing Peng

The right of Yunxian Chen and Jianwei Qiu to be identified as authors of this work has been asserted by them in accordance with sections 77 and 78 of the Copyright, Designs and Patents Act 1988.

All rights reserved. No part of this book may be reprinted or reproduced or utilised in any form or by any electronic, mechanical, or other means, now known or hereafter invented, including photocopying and recording, or in any information storage or retrieval system, without permission in writing from the publishers.

*Trademark notice:* Product or corporate names may be trademarks or registered trademarks, and are used only for identification and explanation without intent to infringe.

*British Library Cataloguing in Publication Data*

A catalogue record for this book is available from the British Library

*Library of Congress Cataloging in Publication Data*

A catalog record for this book has been requested

ISBN: 978-1-138-68703-5 (hbk)

ISBN: 978-1-315-54247-8 (ebk)

Typeset in Times New Roman

by Apex CoVantage, LLC



Printed and bound in Great Britain by  
TJ International Ltd, Padstow, Cornwall

# Government Foresighted Leading

Over the past four decades of reform and opening up to the outside world, remarkable economic growth has been achieved in China, and it has drawn considerable world attention. The question of how to explain that phenomenon and the road China has taken towards its modernization have been the focus of attention from worldwide economists and experts.

This book attempts to explore China's economy from the perspective of government foresighted leading, which gives full play to government functions, particularly those of regional governments. Government foresighted leading theory is an important innovation and contribution to the theoretical configuration of economics. It not only offers an explanation of China's continuous economic growth but further classifies economics into microeconomics, macroeconomics and mezzoeconomics, which includes regional economics, industrial economics or structural economics, supplementing the traditional microeconomics and macroeconomics system.

**Yunxian Chen** is a PhD in economics at Peking University and the founder of Guangfa Securities. He is an expert on regional economy and has many years of experience in the management of regional government in China.

**Jianwei Qiu** is an investment director in a branch company of Taikang Life Insurance Co. Ltd. His key research areas include health industry and financial investment.

## China Perspectives Series

The *China Perspectives* series focuses on translating and publishing works by leading Chinese scholars, writing about both global topics and China-related themes. It covers Humanities and Social Sciences, Education, Media and Psychology, as well as many interdisciplinary themes.

This is the first time any of these books have been published in English for international readers. The series aims to put forward a Chinese perspective, give insights into cutting-edge academic thinking in China and inspire researchers globally.

For more information, please visit <https://www.routledge.com/series/CPH>.

### **Internet Finance in China: Introduction and Practical Approaches**

*Ping Xie, Chuanwei Zou, Haier Liu*

### **Regulating China's Shadow Banks**

*Qingmin Yan, Jianhua Li*

*Forthcoming titles:*

### **Internationalization of the RMB: Establishment and Development of RMB Offshore Markets**

*International Monetary Institute, Renmin University of China*

### **The Road Leading to the Market**

*Weiying Zhang*

### **Macro-control and Economic Development in China**

*Jiagui Chen*

### **Economic Development and Reform Deepening in China**

*Jiagui Chen*

### **Research Frontiers on the International Marketing Strategies of Chinese Brands**

*Zuohao Hu, Xi Chen, Zhilin Yang*

### **History of China's Foreign Trade, 2e**

*Yuqin Sun*

# Foreword

Early this summer, Dr Chen Yunxian came to visit me during his business trip to Beijing. He told me that another book of his would be published by Peking University Press and hoped that I could write a few lines for it, which I accepted with great delight.

Over the past few years I have lived basically a secluded life due to my ill health but have been kept well-informed and updated, thanks to the sophisticated modern media and the frequent visits from my students.

Time is just like a long river, flowing and flowing without stop. Great changes have taken place in today's world, and China's economy has gradually integrated itself into the world's economic system, development and competition. Likewise, China's economists must embrace, with courage and confidence, the theoretical system of the world economy and be part of its construction and innovation.

I am more than happy to find my former student Dr Chen Yunxian keeping abreast of the times and standing at the forefront of economic theorization. Over 20 years ago, when few Chinese scholars knew something about securities and capital market, Dr Chen was already among the first scholars in China's economic circles in studying capital market in the United States, the United Kingdom, Germany, Japan, etc. He proposed the laws governing the relations between securities investment risks and returns. The year 2011 saw the publication of his new book *Foresighted Leading: Theoretical Thinking and Practice of China's Regional Economic Development* by Peking University Press, which attracted immediate attention from China's economists. The viewpoints and the analyses of different cases won extensive recognition. I was also told that the English version of that book has been published by Springer, Germany, which is highly worthy of warm congratulations. It is my belief that his theory will draw the attention of economists from different parts of the world.

This new book – *Government Foresighted Leading: Theory and Practice of the World's Regional Economic Development* – is a companion to the aforementioned book. One is based on the practice and thinking of China's regional economic development and the other is based on the theory and practice of the world's regional economic development. Government foresighted leading, evolving from China's regional economic development to the world's regional economic development and from practice and thinking to explorations and theorization, has

undergone theoretical sublimation deeply rooted in practice and has gone beyond the Chinese scene to the world stage.

I have discovered with great satisfaction that Dr Chen's research and his theory based on China's practice have proved to be of universal significance and application to the world economy. Dr Chen's theoretical achievements have originated from his profound theoretical foundations and, more importantly, his rich practical experience. He started his career in the microeconomic sector by setting up Guangfa Securities Co. Ltd. and leading it to the position of China's top five. He then served in China's local government – the Foshan municipal government and the Shunde District government, both of which have been recognized as China's reform pioneers, with great success. He is now working as deputy governor of Guangdong provincial government. In his transformation from scholarly research to economic practice and from microeconomics to macroeconomics, Dr Chen Yunxian, as a serious scholar, has provided effective solutions to the disconnection between theory and practice and has seamlessly welded them together.

I remember that he came to discuss with me the role of regional government during one of his visits to me while he was serving the Shunde District government. He argued that local governments' role has a dual character – a quasi-macro role of representing the state in meeting the demands of macroeconomic development and a quasi-micro role of effectively allocating local resources and promoting regional economic development, which raises one fundamental issue in economics, i.e. the micro-entity of market competition. In the eyes of most economists, businesses are the sole micro-entity of market competition. The supposition of local governments playing the quasi-micro role suggests that they are part of market competition, in addition to businesses. China's development over the past three decades or so since its reform and opening up has proved that competition between local governments has indeed been an important driving force. It is not hard to see that important economic principles await to be explored underneath competition between local or regional governments. I believe that it would be unlikely for Dr Chen Yunxian to make this discovery if he had not worked for local governments.

In fact, some Western economists, such as Adam Smith, Keynes, Samuelson, Stiglitz and Paul R. Krugman, all had experience in economic administration in the government sector. Keynes, for example, was so courageous as to shatter the old theoretical shackles and put forward his theory of government intervention, thus establishing macroeconomics, which initiated the classification of economics into microeconomics and macroeconomics. The power of theory is so immense that the practice of macroeconomic theory has brought forth such international economic organizations as the World Bank and the International Monetary Fund and has propelled the sustainable development of the entire world economy. An important explanation for Keynes' theoretical breakthroughs is his experience of serving in the British government as Chancellor of the Exchequer that enabled him to have a better position to understand economic operations on the national level.

Over the past few decades, China has covered an economic journey that would have taken one or two hundred years in the West. Western economists have achieved a series of significant theoretical innovations and breakthroughs in economics on the basis of their national experiences and economic advantages, which have benefited mankind. Today, China's development, in particular its economic accomplishments, will certainly give rise to cutting-edge global advantages in China's economic theorization. Chinese economists are bound to achieve their desired goals as long as they work in a down-to-earth manner but operate from a strategically advantageous position.

Xiao Zhuoji  
June 2013



# Preface

China's road of scientific development has not only brought wealth and well-being to the Chinese people but provided research opportunities for economists as well. Over the past three decades or so in particular, China's reform, opening up and development embody the wisdom and efforts on the part of numerous economists and bear abundant theoretical fruit.

The publication of *Government Foresighted Leading: Theory and Practice of the World's Regional Economic Development* is one of the major academic accomplishments Chinese economists have attained. What is noteworthy is that the authors make theoretical explorations of world regional economic development from a global perspective while basing on China's regional economic development.

Dr Chen Yunxian studied under Professor Xiao Zhuoji, a good friend of mine, for his doctoral degree. Since he got his PhD degree in economics, he has been working in financial institutions and for regional government. He proposed the theory of government foresighted leading on the basis of his research findings. In his view, government can perform foresighted leading by means of foundations, mechanisms and regulations of market economy and can employ the visible hand to make up for the margins and defects caused by the invisible hand and remedy market malfunction. On the other hand, government can reduce government malfunction and the cost of remedying malfunction to the greatest possible extent through its competitive role as a regional government in a mezzoeconomy and exercising pre-process foresighted leading.

Dr Chen Yunxian is highly original in proposing the dual-component theory of market competition. He holds that judging from the perspective of global economy, market competition consists of two components – businesses and government. From the microeconomic perspective, businesses are the sole component of market competition, but when viewed from the macroeconomic perspective, there is another key component of market competition – regional government. In terms of global economy, competition occurs between countries, and on the level of national economy, there is obvious competition between regions. Competition takes place between states and cities in the United States, and between provinces, cities and counties in China. It is his view that this dual-component competition that has been driving China's economic growth and has formed the practical basis

for regional governments of provincial, municipal and county level to exercise foresighted leading.

I strongly feel that Chen Yunxian's point of view is in line with the practical situation of China's economic development over the past three decades. I mentioned on several occasions that government regulation should be anticipatory and should not be limited only to "post-process regulation" and that there should be anticipated regulation under some circumstances, which accords with Dr Chen's idea.

The relation between government and market is an important issue in economics. In the course of China's reform and development, confrontations and conflicts of different forces basically revolve around the relation between government and market. However, in any case, the visible hand of government and the invisible hand of market are most important to all self-operating economies. Some economists, under the influence of Western liberal economics, have gone so far as to believe that the invisible hand is omnipotent and disregard the fact of market malfunction, which is obviously one-sided. Some other economists, under the influence of theories of government intervention, have gone so far as to believe that the visible hand is omnipotent and that macro-level economic regulations will solve all problems in economic operations, which is also one-sided.

China's remarkable accomplishments in social and economic development over the past decades are ascribable not only to giving full play to the basic role of market regulation but also to a strong and forceful government. We cannot simply put strong market against strong government: in economic development there must be strong market effectively allocating resources and strong government creating and protecting market environment. Strong government exists not to replace strong market, and strong market needs strong government protection. Only when this "double-strong" mechanism is put into place can market malfunction be remedied and government malfunction be diminished.

Then what is meant by a strong market and a strong government? How can we give full play to the role of strong market and strong government? This book provides us with illuminating ideas, i.e. let market do what it should do and let government do what market cannot do or cannot do well. Both have their own places and roles. Government foresighted leading aims to give full play to government roles in economic guidance, regulation and warning and take the lead in promoting scientific and sustainable growth in regional economy with recourse to market rules and forces, by means of investing, pricing, taxation, legal and other measures and through innovation in organization, system and technology.

One phenomenon in China's development is noteworthy. Regional economies, which are relatively self-operating and economically independent, have been in competition with each other, which propels them to give full play to their comparative advantage and helps to arouse local enthusiasm. All this gives driving forces and vitality to the whole of China's economy. Some scholars have generalized this situation under the heading of inter-county, inter-city and inter-province competition. Dr Chen Yunxian has categorized it into mezzoeconomics in the light of

economic theories and from the angle of local economic practices, which is an important innovation and is well worth serious attention of the economic circles.

Mezzoeconomics represented by regions comes in between microeconomics represented by businesses and macroeconomics represented by countries. This offers not only a factual explanation of the process and characteristics of China's economic development but also a fuller and ameliorated theoretical description of economics. Just as the theory of market economy lays the foundation for microeconomics, and Keynesian theory divides economics into microeconomics and macroeconomics, so the theory of government foresighted leading further classifies economics into macroeconomics, mezzoeconomics and microeconomics.

In fact, mezzoeconomics discussed here includes regional economics, industrial economics or structural economics, which is intimately related to regional economics. I think that this theory fills in the blank of existing economic theories, guides the direction of reform in economic systems, creates a multilevel market and strengthens the stability and vitality of national economy.

As a science of close relation to practice, economics must be related to economic development, and its focus will shift with the transfer of world economic centres. Prior to the 1930s, the world-renowned economists are mainly in Europe, and in the United States after the Second World War, which is the result of the shift of the focus of world economic development. With the rise of China's economy, China's economic growth is bound to attract more and more serious attention, and Chinese economists will usher in a new era.

Li Yining  
June 2013



# Contents

<i>List of figures</i>	vi
<i>List of tables</i>	vii
<i>Foreword</i>	viii
<i>Preface</i>	xi
 Introduction	 1
1 The inception of government foresighted leading	11
2 The theoretical foundations of government foresighted leading	53
3 The practice of government foresighted leading	97
4 The conditions for bringing government foresighted leading into full play	135
5 Government foresighted leading and mezzoeconomics	162
 <i>Bibliography and references</i>	 210
<i>Index</i>	219

# Figures

2.1	Monopoly and the welfare analysis of competition	57
2.2	Changing proportions of China's fiscal expenditure	67
2.3	Proportional tendency and changes of major items in the U.S. fiscal expenditure	69
2.4	Wagner's law	70
4.1	The relation between supply and demand of pure public goods	146
4.2	The relation between supply and demand of quasi-public goods	147
5.1	Factor endowment structure	199

# Tables

2.1	America’s major antitrust laws	58
5.1	China’s national fiscal policies and administration	189
5.2	China’s local budget revenues since the 1994 tax distribution system	190
5.3	Fiscal revenues of China’s local government	191
5.4	Non-tax revenues of China’s local government 2007–2012	192
5.5	Proportion of land lease to local fiscal revenues	192

# Introduction

*Chen Yunxian*

Over the past three decades of reform and opening up to the outside world, remarkable economic growth has been achieved in China and has drawn considerable world attention. The question of how to explain the phenomenon that has been taking place in China and the road China has taken towards its modernization has been the focus of attention from worldwide economists and experts from various other fields. Some economists have even come to predict that whoever can explain China's economic development is definitely entitled to the honor of the Nobel Laureate in economics.

Theory is derived from practice, and unprecedented practice is bound to generate unparalleled theories. Looking back upon the development of world economy, the emergence and evolution of economics, together with all major theoretical breakthroughs, are without exception concomitant with the shift of the world economic centres from one region to the other.

Economics, with its ultimate goal of serving the good of the general public, is intertwined with practice. Not only has China created the miracle of the past 30 years' achievements, but there is a great prospect for its future growth as well. The model China has been pursuing deserves economists' serious attention and study, which will bring about significant breakthroughs in traditional economic conceptualizations and development patterns.

The greatest blessing of life is no more than its birth at the right time. As an economist, I am most blessed for being born in the great era. I am most fortunate to have been able to witness and participate in the unprecedented transformations of China's economy. In the mid-1980s, I had the great honor of studying under professor and economist Xiao Zhuoji at Peking University, where well-known economists from home and abroad converge and work, and where active thoughts and theories appear in close succession.

Chinese economists, harboring the ambition of serving the country, started to capitalize on their knowledge, wisdom and courage to propel China's reform, opening up and transformation. This atmosphere infused into us not only a strong desire for economic expertise but a strong sense of responsibility and mission of serving the country and the people as well.

In the summer of 1991, after my doctoral degree study in Peking University, I settled in Guangzhou and started to launch the securities department of



## 2 Introduction

Guangdong Development Bank. We started up from a team of six people and a meager investment of a little over two million yuan. Through painstaking efforts, the securities department, which was first affiliated to Guangdong Development Bank, was later transformed into Guangdong Guangfa Securities Company, and now Guangfa Securities Co. Ltd, which has become one of the top five large-scale national securities companies, with a well-known “doctoral corps” in China’s capital market circles made up of 65 doctoral degree holders and 385 master degree holders from China and overseas.

From early 2003 to July 2011, I was consecutively appointed by Guangdong Provincial Committee of CPC as executive mayor of Foshan City, secretary of Shunde District Committee of CPC, mayor of Foshan City, secretary of Foshan Municipal Committee of CPC, and now deputy governor of Guangdong Province. Guangdong Province, the first to start reform and opening up to the outside world in China, has been leading China’s economic transformation. Shunde, for several years, headed the list of China’s top 100 counties, and Foshan remains among China’s most developed regions. Immersed in such a vast pilot zone of economic transformation, I feel a stronger impulse of China’s economic development. Standing on such an economic height, I acquire a clearer panorama of its theoretical progression.

No matter whether in the capacity of scholar, business leader or government official, what remains unchanged in me is my nature of being an economist. My theoretical thinking and reflections upon China’s economic reform and development have not ceased with my completion of PhD study in Peking University. Instead my thinking and reflections started to focus more on the application of theories to practical issues. It is my strong conviction that only those who stand firmly on soil can sense the real solidarity of the ground.

### **0.1 From “crossing the stream by feeling the stones” to foresighted leading**

Regarding China’s economic progress, what weighs most heavily in my mind is the role of government in regional economic development. In the case of China’s most developed areas like Guangdong, Foshan and Shunde, their development path and indications for future growth have provided economists with excellent samples for their social and economic analysis.

During my stay in Shunde as party secretary in 2004, my investigation and research concerning Shunde’s industrial development gave me the confidence that China’s development should have got over the stage of “crossing the stream by feeling the stones” and that government should play the foresighted leading role. In the initial stage of economic development, it is safe to adopt the approach of “crossing the stream by feeling the stones” and necessary to encourage bold moves and audacious experiments on the part of regions and even work units. However, when economic development reaches certain levels, it is paramount for government to exercise foresighted leading through scientific planning and take rigorous measures to implement the plans.