



BOOK REVIEW APRIL 23, 2024

## Market Liberalism, Chinese-Style

SAMUEL GREGG

Missing in the conversations about China's future is the place of economic liberalism in modern Chinese thought before 1978.

**I**T'S NO EXAGGERATION TO SAY THAT AMERICA IS IN THE midst of one of its fiercest economic policy debates for some time. But the current quarrel between economic nationalists and free marketers extends beyond domestic policy. Whether conducted via [long-form articles](#) or duked out on X (formerly Twitter) by [dirigiste](#) senators and their [free market critics](#), China looms large in the back-and-forth.

The much-debated relationship between trade and national security forms part of that discussion. Yet so too do arguments about whether American policymakers in the late 1990s placed too much faith in

markets to shift China towards greater political freedom, and, more generally, how much political change can be expected to flow from expansions of economic liberty.

Missing from these disputes is an appreciation of economic liberalism's place in modern Chinese thought *before* 1978. Attention to this period illustrates the insufficiencies of claims that present China's limited moves toward markets between 1978 and 2012 as an anomaly.

An effort to correct this picture is central to a new book by Evan W. Osborne, professor of economics at Wright State University. This book studies economic liberalism's role in China, particularly following the Sino-British 1843 Treaty of the Bogue. That treaty granted most favored nation status to Britain and expanded Western access to Chinese markets. In *Markets with Chinese Characteristics: Economic Liberalism in Modern China* (also available in a free pdf), Osborne argues that it also quickened the entry of market-liberal ideas into Chinese economic thought and practice.

Osborne analyzes economic liberalism's role in China throughout the nineteenth century, details the eclipse of that influence in the 1920s, and shows how market-liberal ideas were banished from the policy realm between 1949 and 1978. He concludes by tracing market liberalism's waxing and waning influence upon Chinese economic policy since then. Among other things, Osborne's highly readable text fills many gaps in the history of economic liberalism in China. That involves drawing upon original sources, some of which have been translated by Osborne himself. The end result is what Osborne aptly calls a "complex and volatile history" of market liberalism in China—one that is far from over.

### **Adam Smith in China**

Though much has been written on political and social liberalism's influence on China, Osborne stresses that economic liberalism's impact as a set of ideas has received far less coverage. His book's efforts to correct the record commences long before what Chinese historians call "the century of humiliation" or "the century of national shame." This is the

100-year period between 1843 when China became a plaything of Western powers (which included China granting territorial concessions to European states) and 1945, when postwar China emerged as a victor over Japan and with a seat on the United Nations Security Council.

Ideas that we would recognize as economically liberal are scattered, according to Osborne, throughout Chinese scholarship going back almost three millennia. Certainly, Osborne writes, “the Chinese intellectuals most respected by subsequent generations wrote primarily on ethics, metaphysics, and history.” Nonetheless, he adds, Chinese thinkers “anticipated by centuries some economically liberal principles, even if they did not consider them central, or united.”

One example is the *Guanzi*, a book named after a state official called Guanzhong (c. 720 BC–645 BC). While not an economic treatise, the *Guanzi* contains insights into topics like the role of profits in conveying information to merchants and consumers. Another example is the *Records of the Grand Historian*, authored primarily by the imperial historian Sima Qian (c.145 BC–87 BC). It articulates what Osborne calls Smithian-like insights into self-interest’s role in economic life and how merchants often seek privileges from governments at everyone else’s expense.

Notwithstanding these precedents, Osborne specifies that “there was no liberal economic doctrine, nor indeed any economic doctrine” in pre-1843 China. Crucially absent from Chinese thought was an appreciation of economic competition’s role in driving growth. That had to await China’s nineteenth-century clash with Western powers wanting easier entry into the Chinese economy. This produced a fascination with Western technology (especially of a military nature) on the part of Chinese scholars and officials. Over time, however, market-liberal ideas attracted the same audiences’ attention.

Many Chinese in positions of authority like the diplomat Xue Fucheng (1838–94) but also outsiders like the writer Cheng Kuan-Ying (1842–c.1922) soon understood, Osborne shows, that dynamic commerce was central to British power. That matters because the initial starting place for

much of Chinese contemplation of these questions was upon what had made Western nations strong—not with concerns for liberty.

Like most twentieth-century postcolonial governments, Osborne notes, many nineteenth-century Chinese officials saw top-down government engineering as the path to modernization. Other Chinese, however, concluded that “self-strengthening” should be a bottom-up process. As Osborne relates, they believed that “the ending of government supervision of commerce” would allow the dynamism that characterized market-driven Western economies to spread and grow in China.

The economic texts to which these Chinese reformers turned embodied the then-dominance of what Osborne calls “orthodox British economic liberalism” throughout the West. Many such books were translated for use in Chinese higher learning institutions in which economic courses appeared after 1867.

One such translator (including of Adam Smith’s *Wealth of Nations*) was the military officer and writer Yan Fu (1854–1921). He made a point of connecting economic liberalism to key concepts of political liberalism. There is some dispute, Osborne states, as to whether Yan’s conception of ideas, like individual rights, accurately reflected Western liberal thought. There are also questions about the adequacy of Yan’s translations. What is not in doubt is that Yan was an effective evangelizer for free market ideas, with many Chinese thinkers and politicians finding them persuasive.

### **Dynamic Markets and Resurgent Dirigisme**

While market-liberal ideas circulated throughout nineteenth-century China, other factors also helped to drive economic liberalization. The European powers, Osborne shows, typically established free markets and commensurate legal protocols throughout their territorial concessions. Some European treaty ports became, Osborne claims, “a close approximation of pure economic liberalism.” Word of the ensuing prosperity got around. Many Chinese consequently moved closer to the borders of the European concessions to benefit from these circumstances.

“Conventional history,” Osborne states, views the Western territorial concessions as symbolizing the century of humiliation. Without denying the seriousness of China’s loss of sovereignty over these territories, Osborne draws upon several datasets to show how economic liberalization in the concessions generated considerable affluence for millions of Chinese in these areas which gradually spilled over into other parts of mainland China.

■ The very nature of CCP governance represents an enduring check on any return to the Deng era.

The same prosperity created deep reservoirs of Chinese-owned financial capital and greater economic mobility. But it also helped produce an educated Chinese middle class that was able to assume many responsibilities that older political elites proved unable to shoulder following the Qing dynasty's deposition in 1912. The new commercial elite, Osborne shows, produced bottom-up forms of governance that delivered "bourgeois order amid political chaos."

Alongside these changes emerged a growing market for ideas. Many were imported to China by Chinese men and women who had studied at American and European universities. The subsequent upheaval reshaped multiple spheres of Chinese life ranging from commerce and law to literature and medicine.

Some of the new ideas, however, were not friendly to markets or liberalism more generally. That included, Osborne comments, dirigiste measures like import substitution policies but also ethno-nationalist and socialist ideologies, both of which were antagonistic to commercial society. The Chinese Republic's first president, Sun Yat-Sen (1866–1925), was not a hardline anti-capitalist. But he was, Osborne remarks, profoundly suspicious of large businesses and looked to state intervention to reduce economic inequality and increase government direction of the economy.

As Sun Yat-Sen's nationalist party—the Kuomintang (KMT)—consolidated power throughout the 1920s, economic liberal ideas and practices steadily fell out of favor, a process particularly reflected in Chinese legal codes. In these conditions, nationalism and anti-market ideas became synonymous. While the Chinese Communist Party (CCP) and the KMT had fallen out by the mid-1920s, Osborne underlines their shared hostility to free market capitalism. Economic liberal theory and policies thus suffered an eclipse between 1927 and 1937. This was manifested in the nationalization of many industries and the metastasizing of

widespread rent-seeking throughout China. These changes prefigured what was to follow in postwar China: economic liberalism's near-death experience.

### **From Mao to Deng**

Osborne's analysis of Maoist China emphasizes just how seriously the CCP took Marxist ideas. They were not a mere ideological façade for the regime. That had implications for the CCP's economic policies. From 1949 until 1962, the new People's Republic of China pursued "the Great Leap Forward." This promoted state-driven industrialization and the collectivization of agriculture, albeit shaped by Maoist deviations from conventional Marxist economic orthodoxies.

Despite, however, this extinguishment of the remnants of economic liberal policies, market-liberal theory managed to stay alive, as Osborne writes, "in the library." In one of his book's most revealing sections, Osborne shows how Chinese Communist intellectuals anxious to contribute to the Marxist historiography of ideas studied books like Smith's *Wealth of Nations*, Jean-Baptiste Say's *Treatise on Political Economy*, Eugen von Böhm-Bawerk's *Capital and Interest*, and, astonishingly enough, F. A. Hayek's *The Road to Serfdom*. They even arranged for translations or new translations of these texts, albeit prefaced with caveats like describing Hayek as "nothing more than a capitalist servant." Hence, while economic liberalism was treated as primitive economics or inherently corrupt, Osborne demonstrates that it was not, unlike many sets of ideas, "airbrushed out of the historical record" by the CCP.

The CCP's gradual liberalization of parts of China's economy from 1978 onwards owed much to awareness by prominent party leaders—most notably, Deng Xiaoping—that China's abject poverty was the outstanding exception to the rule of growing prosperity then beginning to characterize the rest of East Asia. In many ways, Osborne stresses, Deng was driven to market-liberal policies out of desperation at the abysmal state of China's economy. Osborne also highlights, however, the subtle ways in which CCP

intellectuals started rehabilitating market-liberal ideas like the importance of incentives.

That said, Chinese economic reforms went together with a widely held conviction throughout the CCP leadership that economic liberalism need not lead to political liberalization. Even major changes, such as the 1988 decision to liberalize some consumer prices, were couched in technical terms. In other words, markets were considered a set of economic mechanisms that didn't involve embracing non-Marxist philosophical commitments.

### **From Deng to Xi**

This is a good reminder, Osborne underscores, that there was considerable internal CCP opposition to economic liberalization which Deng and his supporters never managed to exorcise, notwithstanding the CCP's adoption of the goal of "a socialist market economy" at its 14th Party Congress in 1993. This makes more comprehensible the growing restrictions of economic freedom which began ramping up under Xi Jinping after he came to power in 2012. Many senior CCP leaders had long feared that extensions of economic liberalism might facilitate a political liberalization that would terminate the CCP's monopoly of power.

CCP efforts to impede such an eventuality accelerated in 2013 with efforts to purge mentions of "universal values," "press freedom," "civil society," "civil rights," "past CCP mistakes," and "the independence of the judiciary" from "Chinese official media and online conversation." This was followed by economic policy changes ranging from greater state direction of important economic sectors to the government taking majority-stakes in many publicly traded companies.

The goal, according to Osborne, is "a utilitarian commitment to limited economic liberalism because it allows the Chinese people to live a materially satisfactory life" accompanied by zero CCP tolerance for "any developments that threaten its political monopoly." In this sense, the very nature of CCP governance represents an enduring check on any return to



the Deng era, let alone adoption of a more comprehensive economic liberalization program.

### **Are Market Liberties Over?**

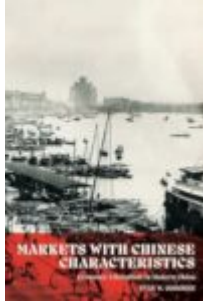
Economic liberal theory does not presently have the role in China that it played in the late nineteenth century. Yet even under Xi, Osborne comments, private economic activity is considered necessary to “preserve and, where feasible, promote a rise in the overall standard of Chinese living.” The result is an uneasy mixture of liberal and illiberal economic policies. Though Beijing has accentuated its rhetoric against wealthier Chinese, Osborne’s conclusion is the following: “The word is out to the private sector: make money, but don’t make trouble.”

Can such a hybrid last? The answer is: maybe. As long as the CCP retains its will to power, efforts to extend economic liberalization will encounter powerful limits. Authoritarian regimes that maintain an extensive domestic security apparatus and aren’t afraid to pull the trigger on their own citizens (as Deng himself did against Tiananmen Square protestors in 1989) can stay in power for a long time.

Working against this is the fact that many of China’s present economic problems flow directly from its more recent interventionist turn. Take, for instance, those enterprises owned by the Chinese state or in which the government has acquired a majority-share. They are only eighty percent as productive as privately owned Chinese businesses. This, the IMF tells us, is one reason why China’s productivity has been falling. That raises questions about the CCP’s capacity to fulfill its side of the undeclared bargain with China’s population: i.e., the Party allows the people to experience the benefits of economic growth, in return for which the people accept the CCP’s iron grip on political power.

Therein may lie the greatest difficulty confronting the CCP: how to balance the pressures generated by even limited amounts of economic freedom that China needs to generate sufficient growth against the illiberal imperatives associated with staying in power. In such circumstances, there is always the chance of serious missteps by Beijing

that might create new possibilities. For those who believe in another imperative—that of liberty—this is a reason for hope.



REVIEWED

*Markets with Chinese Characteristics*

by Evan W. Osborne

BUY THIS TITLE

Samuel Gregg is the Friedrich Hayek Chair in Economics and Economic History at the American Institute for Economic Research, and Contributing Editor at *Law & Liberty*. The author of 16 books—including *The Commercial Society* (Rowman & Littlefield), *Wilhelm Röpke's Political Economy* (Edward Elgar), *Becoming Europe* (Encounter), *Reason, Faith, and the Struggle for Western Civilization* (Regnery), and most recently, *The Next American Economy: Nation, State, and Markets in an Uncertain World* (Encounter), as well as over 700 essays, articles, reviews, and opinion-pieces—he writes regularly on political economy, finance, American conservatism, Western civilization, and natural law theory. Two of his books have been listed for Conservative Book of the Year and one has been listed for the Hayek Prize. He is an Affiliate Scholar at the Acton Institute. He can be followed on Twitter [@drsamuelgregg](https://twitter.com/drsamuelgregg)

Law & Liberty's focus is on the classical liberal tradition of law and political thought and how it shapes a society of free and responsible persons. This site brings together serious debate, commentary, essays, book reviews, interviews, and educational material in a commitment to the first principles of law in a free society. Law & Liberty considers a range of foundational and contemporary legal issues, legal philosophy, and pedagogy.

---

## LAW & LIBERTY

---

PART OF THE LIBERTY FUND NETWORK

© 2024 Liberty Fund, Inc. The opinions expressed on Law & Liberty are solely those of the contributors to the site and do not reflect the opinions of Liberty Fund.

DESIGNED BY BECK & STONE