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Socialization of Investment and Institutional Changes in China: A Heterodoxy Approach

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ABSTRACT
In this paper, we show that economic development in China can be analyzed by the cyclical emergence of institutions that delimit a continuous reorganization of activities between the State and private sectors in the economy. For this purpose, we develop a 'developmentalist approach'—based on the contributions of John M. Keynes, Alexander Gerschenkron, Ignacio Rangel and Albert Hirschman—that aims at understanding the formation of a policy space suitable for the socialization of investment in China under an international environment characterized by the financial globalization.

KEYWORDS China; economic development; State

JEL CLASSIFICATION B25; O17; 053; P41

1. Introduction

The process of Chinese economic development is one of the most impressive phenomena in the world we live in, due to both its length and its internal and external reach: average GDP growth of 9.8% p.a. in 35 years (1983–2017), while income per capita in the period rose from US$195 in 1980 to US$8,827 in 2017. Behind this process, it is detached the high investment over GDP ratio (more than 40% since 2008), its huge foreign exchange reserves (US$3.2 trillion in 2017) and a large volume of foreign trade (37.8% of GDP). Behind this data history is the formation of a 'triple condition' of commercial, industrial, and financial power, and the privileged political and geopolitical position of the largest liquid creditor in the world (US$1.97 trillion or 20.8% of GDP in March 2015).

There are many interpretations of this complex phenomenon. Conventional approaches particularly highlight the role of privatization, foreign capital and market deregulation. A heterodox approach, however, should point to the centrality of the role of the State and the interaction between institutions, the public financial system and large state conglomerates in key sectors of the economy as important factors in explaining China's success.

The gradualism and experimental nature of reforms not only heightens the perception of the centrality of the executor and mediator role of State, but also reinforces the perception that new forms of economic planning have been developed throughout the Chinese economic reforms. In fact, China's prompt reaction to the 2008 financial crisis demonstrated not only at the level of control of large industry and finance, but also at a high level of 'socialization of investment' and the launching of *new and higher forms of economic planning*.

In this paper, by the heterodoxy point-of-view, we seek to demonstrate that economic development in China can be explained by the *cyclical* emergence of institutions that delimit a continuous reorganization of activities between the State and private sector of the economy. The crucial point of the analysis of its development is the elaboration of an approach capable of explaining the formation of a 'policy space' suitable for the socialization of investment under an international environment of globalized finance. For that, we developed an analytical approach based on the contributions of John M. Keynes, Alexander Gerschenkron, Ignacio Rangel and Albert Hirschman, in order to allow a more comprehensive understanding of the Chinese development process. The choice of such authors is not a random one: they are authors who, under different analytical approaches, have emphasized the importance of the role of the State for economic development. We understand that such analyses, by highlighting different aspects of the State-market relationship, are highly complementary.

In addition to this introduction, the article is divided into three sections. In Section 2 the Keynes-Gerschenkron-Rangel-Hirschman approach is developed with the concepts developed by each author and their applicability to the Chinese case. Section 3 is devoted to an analysis of China's development process from the reforms and economic openness that begun in the late 1970s with a focus on the evolution of relations between State, market and private enterprise, development of the domestic financial system and the process of centralization of the State in 49 state-owned companies. We conclude Section 3, addressing the constitution of policy space to the execution of socialization of investment policies in an international environment characterized by globalized finance. Finally, some brief future challenges of Chinese economy are analyzed.

2. Keynes-Gerschenkron-Rangel-Hirschman Approach and the Recent Development in China

The development of an approach consistent with the complexity of a phenomenon of development of what happens to China demands both the perception of the role of the State as the protagonist of the development process and taking account of the *historical-deductive* method. Indeed, instead of an orthodox, reductionist view, that believe that the success of the Chines experiment is due mainly to a combination of privatizations and deregulation, we understand the process of accumulation of China taking the assumption that, according to Bresser-Pereira (1989, p.115), 'in each cycle or historical moment the nature of State intervention changes'.

We add that every economic cycle also changes the institutions and their character. Market and the private sector roles change, and the scope of planning accompanies the cyclical changes. 'Socialization of investment' policies are an expression of the process of accumulation, which includes the creation and development of economic institutions of diverse typology, the formation of a solid financial system and also a highly complex integrated production capacity. In this connection, the current approach—based on Keynes-Gerschenkron-Rangel-Hirschman—aims to provide a theoretical-conceptual tooling quite appropriate to the understanding of the phenomenon of the Chinese development in its *multiple determinations*.

The notion of complementarity between the State and the market is present in John M. Keynes works: various specific activities of capitalism require the stimulation of individual earning, and it is up to self-interest to determine what will be produced. However, in certain situations, Keynes argued that the free play of market forces must be restrained or even guided (Keynes, 1926). In other situations, this complementarity tends to escape due to political and conjunctural injunctions with the State becoming a substitute for the private sector and the market itself,[1] encapsulating, in the words of Henderson (1955, p. 234), the role of 'Entrepreneur in Chief'.

Thus, we use Keynes's notion of 'socialization of investment' which in his 'General Theory' (1964) predicted the need for the State to influence private investment decisions and the households' propensity to consume through taxes policy and interest rate policy. The application of this notion is related to either the role of the State in defining crucial economic variables to stimulating private spending, in particular by the use of monetary, fiscal and exchange rate policies, and in the complementary nature between public and private investment. According to Keynes (1964, p. 378).

> The State will have to exercise a guiding influence on the trend to consume partly through its scheme of taxation, partly, perhaps, in other ways. (…). I conceive, therefore, that a somewhat comprehensive socialisation of investment will prove the only means of securing an approximation to full employment; though this need not exclude all manner of compromises and of devices of which public authority will co-operate with private initiative.

In the General Theory, Keynes identified the fluctuations in the investment the *causans cause* of the economic growth. Therefore, for him, stabilization of investment is the primary objective of government policy, and for this reason, ' … long-term program of a stable character should be capable of reducing the potential range of fluctuations to much narrower limits than formerly' (Keynes, 1964, p. 352), with a public investment program playing a key role.

Policies of socialization of investment adapt themselves to certain specificities. A Chinese characteristic is that the socialization of investment *combines* an economic policy more favourable to private investment, with the State itself taking on the role of *lender of last resort and investor of first instance* (Burlamaqui, 2015, p.47), which does not preclude cooperation with the private sector.

This specificity ('State as investor and financer') allows us to allude to the statements of Alexander Gerschenkron. The political challenge of countries with late development requires overcoming the obstacles related to the financing of productive activities outside the modalities of 'primitive accumulation' (colonization and/or violent peasant expropriation). For this author, to reach the level of development of England in the century XIX demanded the replacement of 'classical primitive accumulation' by the creation of financial conditions and institutions that aimed at the rapid implantation of entire industrial plants and unification of the national market via the transport system. It is this process of forming financial institutions that are

[1]Kregel (1985, p. 37) points out that although it was clear in Keynes recommendations for a greater State participation in investment, this did not necessarily mean a direct participation, on the contrary, a combination of State, semi-autonomous institutions and mixed forms of capital ownership.

focused on long-term financing that distinguishes late experiences of development from English experience.

In Gershenkron (1962) we see the conception of State financial systems capable of initially replacing the lack of a core business and a more developed private financial system—something very close to what is seen in China's development process, however mediated by the specificities of its complex financial system. It is irresistible to perceive a certain continuity between the pioneering role of the French Crédit Mobilier, an early financial institution dedicated to railway construction, and the immense Chinese development banks engaged in financing the largest infrastructure works in the world.

In the case of China, for example, placing emphasis on the *costs of production* as a key factor at the expenses of the forward role of the long-term credit system could result in a large explanatory gap. In this sense, the following passage from Gershenkron (1962, pp. 12–13), can be valid to China:

> The importance of that development has seldom been fully appreciated. Nor has it been properly understood as emanating from specific conditions of a relatively backward economy. In particular, the story of the Crédit Mobilier of the brothers Pereire is often regarded as a dramatic but, on the role, rather insignificant episode. All too often, as, for instance in the powerful novels of Émile Zola, the actual significance of the developments is almost completely submerged in the description of speculative fever, corruption, and immorality which accompanied them. It seems to be much better in accord with the facts to speech of a truly moments role of investment banking of the period for the economic history of France and of large portions of Continent".

We can understand the recent Chinese development as the history of the transition from a centrally planned economy, with strong restrictions on market role and private initiative, to another one—of a *planned* and *commercial* nature—with increasing *quantitative* importance of the private sector. In this respect, the importance of the existence of large development banks seems to be the tip of a large institutional iceberg to be studied. We cannot isolate this fact (formation of the financial system) from something larger and concomitant: deep institutional reforms have opened both the emergence of a dynamic private sector and a process of *centralization* of large state capital. Analysing the dynamics of these two sectors is of paramount importance to those who are engaged in understanding the success or failure of catching up processes.

The Brazilian economist Ignacio Rangel[2] has also important contributions to the role of the State in the development process. At various points in his work he stress that at the end of each brief economic cycle, institutional changes were necessary both for the promotion of intersectoral transfer of resources and the reorganization of activities between the State and private initiative.[3] According to Rangel (1988, p. 5; authors' translation):

> In all periods of history (…) the economy has always had, alongside the private sector, the public sector. From time to time, the distribution of attributions between these sectors is called into question and (…), we redistribute these attributions between the two sectors. This helps to overcome the crisis and open a new period of development. So, there is no way to suppose that this dialectic is exhausted.

[2]Brazilian economist of the Century XX who had great influence in the analysis of the specificities of the backwardness economic development.
[3]See, among others, Rangel (1980, 1981, 1985).

Ignacio Rangel frequently refers in his work to a dynamic between the State and private sectors of the economy that accompanied the Brazilian development process, a process that is mediated by brief ('Juglarian') cycles. We are not—mechanically—stating the existence of this kind of cycle in China. However, this approach may be essential to the understanding of an explanatory nexus for the relationship—in China—between the cyclical emergence of new institutions and the broadening of the scope of the private sector *mutatis mutandis* with the *qualitative* change of the State's role in the economy, as we will see below.

In the case of China, this dialectic—pointed out by Rangel to Brazilian experience—has been recurrent in its development process. Throughout the economic reforms (since 1978) we can perceive the existence of institutional changes that give rise to a complete reorganization of activities between the state and private sectors of the economy and opening new internal fields of accumulation. In fact, recent Chinese experience shows that this ongoing reorganization of activities between the State and private enterprise has given a prominent role to the 'new' (centralized) state sector that emerged in the late 1990s. It is interesting to note the fact – that distinguishes the Chinese developmental experience from other cases—of the emergence of new institutional frameworks did not, throughout the industrialization process, result in a discontinuity solution (Medeiros, 2013, p. 435).

It was not spontaneous and/or guided by unregulated mercantile forces the process of forming a private sector alongside a State sector; in turn, this relationship has undergone major changes since the beginning of economic reforms. With the crucial tools to capital accumulation, the State guided the process of development in China, modifying, in a flexible and pragmatic way, institutional milestones in accordance with the needs put by reality.

The construction of a State that has the capacity both to deal with policies of socialization of investment and of *investor* and *lender* has not exempted the necessity to induce the development of a concomitant private sector. It went further by promoting the shifting and concentration of its own productive sector into key industries that combine high productivity with large returns to scale and enabling gains from the industrial chaining effect and 'unbalanced growth';[4] which leads us to meet the theses developed by Albert Hirschman (1958) in his book 'The Strategy of Economic Development'.

Hirschman argues that the use of induction mechanisms and government investments in key industries allows not only overcoming bottlenecks in the economy but also the creation of investment opportunities and 'back and forth linkages' to the private sector: concentrating investment in key industries, governments can stimulate supply generation at bottlenecks that become inputs to these industries. His broad vision of economic planning incorporates the dialectical perception that the process of maintaining a 'forward movement' must demand development policy through 'tensions, disproportion and imbalances' (Hirschman, 1958, p. 118).

Applying the 'unbalanced development' hypothesis in China may allow exploring a variety of fields, including the very dynamics of State intervention and its relation with a new private sector emerging after 1978. The reason for this is the peculiarity of the Chinese case, according to Holz (2011, p. 221):

[4]That is, development as a process of jumps between one imbalance to another.

> (…) the case of China also differs from that of the typical developing economy which Hirschman may have had in mind in that China, at the outset of economic reforms in 1978, had in place a balanced industrial base and the government was already strongly involved in the economy. This creates the opportunity for a unique application of the unbalanced growth hypothesis.

In the case of China, we can see that industrial chaining and its backward and forward linkage effects have a major impact on large state-owned companies, while the new private sector arising from economic reforms has been the direct beneficiary of supply generation in economic bottlenecks, notably the production of inputs by the state-owned firms.

To elucidate the constitution and development of these two sectors (public and private), especially all the *qualitative* transformation of the role of the State, as much as *macro* policies and the role of its *business complexes*, is a challenge that the approach presented seeks to address.

3. The State and Private in China

Since the second half of the 1990s there have been two major State intervention movements on the Chinese economy. The first one is the launch of the Greater Western Development Program in 1999, which quickly became the largest territorial income transfer in the modern world (Jabbour, 2006). This program launched the first major step towards the unification of China's economic territory, similar that of the United States in the second half of the century XIX (Oliveira, 2003). It was also a response to the impact of the Asian financial crisis of 1997/1998 on the Chinese economy. Instruments of socialization of investment were widely used in the sense of overcoming deflationary pressures observed at the time.[5]

We see this movement as a 'general rehearsal' of what would have occurred most sharply in reaction to the financial crisis that began in 2008, triggering the second State intervention movement in the Chinese economy. That same year, on November 5, the State Council of China announced to the world a vigorous stimulus package to the economy of US$600 billion—at the time corresponding to 12.6% of GDP, a real mass intervention of the State in the economy. In just a few years the country would be crossed by new and thousands of miles of high-speed rail lines, subways and highways.[6]

The investment over GDP ratio reached an impressive 47.6% in 2011, setting up installed production capacity ready to respond not only to internal but also external challenges such as the one proposed by the configuration of a 'New Silk Road' (land and sea) launched by Chinese President Xi Jinping in September 2013. For this unprecedented project, the mobilization of about US$1 trillion in the form of Chinese investments in infrastructure in 69 countries by 2020 is planned (PWC, 2016, p. 3). It is not an exaggeration to put this project as a Chinese Marshall Plan (Ling, 2015) with all the political and economic implications present in the North American version of the post-World War II project.

[5]This reaction to the Asian crisis and the Western Development Program ushered in a new internal dynamic of growth with emphasis on energy and transport infrastructures with strong chaining effects, especially in heavy industry (steel, cement, chemistry, etc.).

[6]Data from the National Bureau of Statistics of China (NBSC) show that the Chinese rail network jumped between 2009 and 2015 from 86,000 to 121,000 kilometres in length.

Thus, we can see, from the end of the 1990s onwards, a real revival of the State's action on the Chinese economy with direct execution supported by large state-owned conglomerates, and complex national and state funding system. This plot, at least at first glance, may seem unfocused, even strange in the face of conventional visions of the Chinese development process.[7] However, dynamic view of the process of economic reforms pointed out the need for a broader understanding on the relationship between the state and private sectors in the economy and between internal processes of privatization versus nationalization.

3.1. The First Cycle of Institutional Innovations

Two levels of liberalization and a political/regional reconfiguration inaugurate the Chinese economic reforms and shall be treated as *institutions* that contributed to the process of economic development. The institution of *responsibility contracts*[8]—demarcating the beginning of the communal complex of the Maoist era—between the State and the peasant family was a peculiar form of privatization (Medeiros, 2013, p.475) and made possible a political and social environment conducive to private accumulation. Since then, 'enrichment allowance' has turned China into a 'factory maker' with the impetuous advance of the private sector, including over state-owned firms' assets.

The transition from a *centrally planned economy* to another with greater *market* power resulted in a reform of the price system with the establishment of the so-called 'dual track system',[9] that lead off a slow liberalization process that would be completed only in 1992.[10] The above-mentioned political/regional reconfiguration took place within the framework of a broad fiscal reform that gave the provinces greater financial autonomy *vis-à-vis* the central government.

This autonomy extended over a large part of the state-owned provincial and district business sector and formed the basis for thousands of Canton and Town Enterprises[11] (ECP's) responsible for both the basic formation of the supply of consumer goods the domestic market and exports, and the absorption of the displaced agricultural labor force.[12] The first cycle of institutional innovations resulted in an increase of income and agricultural productivity,[13] resulting in a bigger demand for manufacturing goods. There was a cycle of growth driven by household

[7]Orthodox views on the Chinese process of development can be found in Lindbeck (2008) and Wei et al. (2016).

[8]The responsibility contract allowed the peasants to sell part of the production that exceeded the quotas stipulated by the government to supply the cities. The land, however, remained public property.

[9]The dual track system was characterized by the coexistence between a system of market prices and another system under state control, especially in cereals, foodstuffs and energy.

[10]The State control subsidy on the price of a cereal basket guaranteed substantial increases in peasant income, becoming itself as a fundamental instrument for the formation of a broad consumer market.

[11]In 1978, the total number of employees in the ECPs was 28.2 million workers, tripling in the first ten years of economic reforms to 93.7 million and reaching 138.7 million employees in 2004. At the end of the 1990s, 40% of Chinese industrial production was being processed in ECPs, which in turn accounted for 27% of the country's manufactured exports in 2004 (Kang, 2006).

[12]As a result of this policy, cereal production reached 407.3 million tonnes in 1984, an increase of 33.6% over the 1978 harvest (Rong et al., 1992, p.375).

[13]The process of gradual installation of the ZEEs included not only the construction of an export platform, but also a nodal element to the reunification of the country under the mantra of the 'One Country, Two Systems' proposal.

consumption that has lasted throughout the 1980s. This expansion of the domestic market had a corresponding effect on the increase in the number of registered industrial enterprises in the country, rising from 348,400 in 1978 to just over 10 million in 1994 (Jefferson, 2016, p. 88).

The growth of a private sector, apart from a myriad of forms of ownership between this sector and the State, was impressive with figures capable of—in static analysis—serving as the basis for orthodox arguments relating Chinese success to the explosive increase of 'small enterprises' in the 1980s and 1990s. In fact, there was a substantial 'growing out of the plan' (Naughton, 1996) stimulated by rural reforms and the institutionalization of private accumulation. This expansion continued in the 1990s where a *second cycle of institutional innovations* allowed a wave of privatizations of small state-owned enterprises. For example, at the end of 1996, in the coastal provinces, 70% of small state-owned firms had been privatized while in the interior of the country this rate reached 50% (Nolan, 2003, p. 16).

This cycle of expansion of the *market* and of the *private sector* was matched by an early reorganization of activities between the State and the private sector with the State, for example, exerting coordination/regulation power both on the growing exports of manufacturing goods of added lower value produced in the ECPs and in the Special Economic Zones (ZEEs)[14] and on imports of machinery and equipment through a dual track system.

3.2. Building the Basis for a Modern Monetary Economy

The late 1980s presented a *critical* first phase of the reform process in China. A major impasse came to light in the form of an explosive mix between rising inflation (from 7.2% p.a. in 1987 to 18.3% p.a. in 1989), exposure to external constraint (accumulation of continuous trade deficits), and an increase of external (the debacle of socialism in the USSR and eastern Europe) and internal political pressure (conservatives versus liberals competing for the content of reforms). If the decline in investment rates (from 39.4% per year in 1988 to 1.8% per year in 1990), consumption (from 49.6% in 1988 to 39.6% in 1989) and economic growth (4.1% in 1989 and 3.8% in 1990) led to the fall in the inflation rate, it was not until 1992 that a broader political definition was able to bring the conditions back to a solution to the continuity of reforms.[15]

Starting in 1992, a new cycle of institutional innovations begins, in which a demarcation of the frontier of actions between the State and private sectors of the economy is initiated, with the former undertaking more extensive tasks ('socialization of investment'), providing more margin for manoeuvre in the coordination of investment.

This new cycle opens the doors to a dynamic of growth characterized by the 'combination of two dynamics': a dynamic of export-led and another one of investment-led (Paula & Jabbour, 2017).[16] This combination brought together a rise in productive capacity linked to the expansion of foreign direct investment, which went

[14]On the extension of the 'dual track system' to exchange rate policy, see See (2014). It was, as in the case of the price system, a transitional mechanism.

[15]The reformist wing of the Communist Party of China (CCP) led by Deng Xiaoping himself emerges as the big winner of the 14th CCP Congress (1992). On this process, see Marti (2007).

[16]The ratio between exports over GDP rises from 7.5% in 1980 to 10.5% in 1986, 17.5% in 1991, reaching 20.4% in 1995, 26.5% in 2003 and 35.7% in 2006, falling from then until reaching 22.6% in 2015. The investment rate underwent a strong acceleration process from the end of the 1990s.

from US$4.3 billion in 1991 to US$44.3 in 1997 (Word Bank, 2018), unification of the exchange rate policy in 1994 and the establishment of full mechanisms to control the flow of capital and foreign exchange, as well as fiscal reform, reversing the previous trend of decentralization strengthening the fiscal conditions for the subsequent implementation of countercyclical policies in China (Ki & Yuk-Shing, 1994).

3.3. Chinese Financial System and Gerschenkron Synthesis in 'geometric progression'

The approach offered here, along with the *Rangelian* view of 'cycles of institutional innovations', requires attention to the transition process of a financial system—as stated above—based on the government budget to one more focused on *State, non-private,* and reproduces somehow the Gerschenkron analysis of the process of backwardness industrialization to China.[17] A virtuous relationship between the development of its State financing system and the transformation of the country into a financial power[18] happened *pari passu*.

Predominantly state-owned, this system has had different degrees of functionality for economic development, which intertwine, namely: 1) decisive impact on the increasingly complex conditions of financing of the economy ('finance' and 'funding'), and affecting the real variables of the economy, such as product and employment;[19] and (2) the fundamental role of the financial system in the context of a continental economy subject to constant bottlenecks, which makes cross-sectoral transfer of resources crucial to address the continuing imbalances in China, whether social, regional or between different sectors of the economy itself.

This huge state-owned financing machine has been gaining force and centrality in the process of economic development, contributing to the growth of the domestic credit over GDP ratio, which in 1980 was 49.7%, quickly reaching 86.2% in 1990. Since 2000, there were higher jumps in this index: to 111.1% in 2000; 122.8% in 2011 and 157.8% in 2016 (World Bank, 2018).[20]

The institutional evolution of the financial system has accompanied and even anticipated the demands of the economic reform process, including overcoming the high degree of financial repression. Between 1978 and 1984 the People's Bank of China, the Chinese central bank, became responsible for regulating the financial

[17]According to Lo et al. (2011, p. 271): 'Seen in the light of the mainstream doctrines, certain important elements of the system might appear to be market imperfections and might entail allocative inefficiency. But from the perspective of the alternative theories, these elements could in fact be conducive to productive efficiency.'

[18]China holds the position of the world's largest net creditor in the amount of US$1.97 trillion, equivalent to 20.8% of its GDP in 2014 (Cintra & Silva Filho, 2015, p. 426).

[19]Keynes (1937) suggested a circuit involving finance-investment-savings-funding in which obtaining financing (liquidity) is the beginning of the capital formation process, saving is generated from investment decisions as a result of the income multiplier process, and ex post saving can be channelled into the financial market to consolidate investing firms' short-term debt. In this sense, a functional financial system is one that is capable of providing finance that enables entrepreneurs to invest and that channels savings to fund their debts later (funding), whether directly or indirectly. Studart (1995, 284) defines the functionality of the financial system from a post-Keynesian perspective as follows: 'a financial system is functional to the process of economic development when it expands the use of existing resources in the process of economic development with the minimum possible increase in financial fragility and other imbalances, that may halt the process of growth for purely financial reasons.'

[20]For comparison purposes, in 2015, in Brazil this ratio was 54.2%, India 76.7% and Russia, 54.5%.

system, ruling committees such as China Banking Regulatory Commission (CBRC), the China Securities Regulation Commission (CSRC) and the China Insurance Regulatory Commission (CIRC). At the same time, four large state-owned banks have been formed by the time (Big Four[21]), and the rising of many national and regional banks from various types of ownership, meeting the demands of agriculture, urban construction, infrastructure and financing of exports and imports. Further, there has been a gradual development of the capital market in China.

Over time, the Chinese financial system, seen as part of a complex set of development-oriented state institutions, has become one of the pillars of a national strategy in which the State has shown flexibility in cyclically changing its role. In this sense, the State has transformed from a direct agent of 'forced savings' to the manager of upper-level mechanisms in terms of investment coordination/socialization.

3.4. State and Its Huge Centralized Capital: Strategic Relocation and 'Investor in the Front'

The Asian financial crisis of 1997 accelerated the implementation of new institutional frameworks that would be complemented by the 2002 training of the State-owned Assets Supervision and Administration Commission of the State Council (SASAC). Alongside a large fiscal package transformed in the afore mentioned Western Development Program (1999) there is an intense process of mergers and acquisitions in the State sector of the economy leading to the formation of 149 conglomerates business located in key sectors of the economy, making it the so-called hard core of the Chinese economy. Thus, a new and centralized 'large public ownership' emerges from this. There is much evidence of the new role assumed by this sector.

This group of companies—despite their drastic reduction in numbers of firms—became more important, more capital-intensive, and more profitable than the private sector (Gabriele, 2009, p.17).[22] This process, and the institutional cycle, established the conditions for the strategic relocation of the State—including its own relaunch—and signaling the leading role, from 'front' investor and active agent of industrial linkage to other sectors of the economy. In other words, the requirements pointed out by Hirschman and his 'unbalanced growth' were met. Particularly noteworthy are the emergence and development of a large private sector in the 1980s and large centralized state-owner firms between the late 1990s and early 2000s.

[21]The 'big four' Chinese banks are the Bank of China (BOC), the China Construction Bank (CCB), the Agricultural Bank of China (ABC), and the Industrial and Commercial Bank of China (ICBC). ICBC is the largest bank in China by total assets, total employees and total customers. BOC specializes in foreign-exchange transactions and trade finance. CCB specializes in medium- to long-term credit for long-term specialized projects such as infrastructure projects and urban housing development. ABC specializes in providing financing to China's agricultural sector and offers wholesale and retail banking services to farmers, township and village enterprises (TVEs) and other rural institutions. The share of public banks in the total assets of the Chinese banking sector was 55% in 2010 (Lo et al., 2011, p. 271).

[22]According to Gabriele (2009, p. 4): 'State-owned and state-holding enterprises are now less numerous, but much larger, more capital- and knowledge-intensive, more productive and more profitable than in the late 1990s. Contrary to popular belief, especially since the mid-2000s, their performance in terms of efficiency and profitability compares favorably with that of private enterprises. The state-controlled subsector constituted by state-holding enterprises with at its core the 149 large conglomerates managed by SASAC, is clearly the most advanced component of China's industry and the one where the bulk of inhouse R&D activities take place.'

Evidences about the strategic and 'investor in the front' of the state-owner firms are evidenced, for example, in the comparison of labor productivity over income per worker between public and private enterprises. Data from the NBSC show that in 2007, this ratio in state-owned companies was, respectively, 58.3 and 84.7; in the ECPs, 41.2 and 24.8; in private companies 48.1 and 32.5; and in state-owned conglomerates 68.7, 90.8; in mixed capital companies with majority state ownership, 88.0 and 99.2; and privately-owned joint venture companies, 41.6 and 90.8.[23] Productivity differential between state-owned companies, TVEs, mixed capital companies, etc. can hold answers to the emergence of a 'new model' in China more focused on the development of the technological frontier.[24]

The Chinese response to the 2008 crisis showed an impressive coordination capacity of the State, with a strong symbiosis between the public financial system and the capacity to execute the stimulus package by the 149 business/State conglomerates. The State as investment coordinator ('socialization of investment') comes to fruition with the formation, in 2002, of SASAC (State Assets Supervision and Administration Commission) created to represent the interests of the central government in the 149 major companies in the country. It is no exaggeration to say that the combination of investment coordination (SASAC) with a partially state-owned financial system conforms a higher level of State performance in China.

3.5. The Socialization of Investment and the Construction of the 'Policy Space'

The formation of SASAC as a fundamental element of State coordination on investment leads us to another question that arises in the analysis of experiences of massive State intervention over the economic cycle. It is about the existence or not of *policy space for policies of socialization of investment* in an environment of globalized and financialized economy. In this sense, in the case of China, it is perceived that the continued reorganization of activities between the State and private sectors would not waive the State's own control not only on the hard core of finance and the productive system, but also on the fundamental mechanisms of an autonomous macroeconomic policy, such as interest rates and exchange rates—in addition to the necessary isolation of monetary policy from the moods of the international economy, through control over the capital flows.[25]

The formation of the world's largest foreign exchange reserves (US$3.1 trillion in December 2016) as part of a whole that involves a defined national strategy mediated by waves of institutional reforms are a good starting point for understanding the formation of a 'policy space' to the socialization of investment. Initially, there

[23]Data from National Bureau of Statistics of China (NBSC).

[24]As per Lo and Wu (2014, p. 320) '(…) a new model has emerged in recent years, in which the main vehicles of the development of frontier technology are the SOEs. The development of high-speed railway technology is a prominent case. (The state plan to develop large-scale civilian aircraft manufacturing is also in line with this new model)'.

[25]The objectives of capital controls evolved over time, but generally have included the following: (i) helping channel external savings to desired uses; (ii) keeping monetary policy independent of the influence of international developments in the context of a managed exchange rate regime: (iii) preventing firms and financial institutions from taking excessive external risks: (iv) maintaining a balance of payments equilibrium and exchange rate stability; and (iv) insulating the economy from foreign financial crises (Zhao, 2006).

are two key variables that can explain this process: the role of exports and the behavior of the exchange rate. The establishment of the ZEEs and the change in the macroeconomic conditions of the Japanese economy after 1985 have greatly benefited China's strategy of internalizing technologies through foreign direct investment (FDIs) alongside an aggressive export policy.

The evolution of this component of the demand during the economic boom in China shows a clear trend: the ratio between exports/GDP goes from 5.9% in 1980 to 11.8% in 1990, reaching 18.5% in 1994, 20.9% in 2000 and 35.5% in 2008, falling from then until reaching 19.8% in 2017. The value of exports has jumped from US$11,3 billion in 1980 to US$62,09 in 1990, US$104,6 billion in 1994, US$253,1 in 2000, reaching US$1.50 trillion in 2008 and US$2.21 trillion in 2017 (World Bank, 2018). It is worth noting that in the period from 2000 to 2008 world exports slightly more than doubled, while Chinese exports more than six-fold.

The behavior of the exchange rate is suggestive of the cycles of institutional changes the Chinese economy has undergone since the beginning of economic reforms. It has continued the trend of devaluation of the yuan since 1981, until the maximum devaluation of 1994, occurred *pari passu* with a strong internal fiscal adjustment. A fixed exchange rate (1 US$= RMB 8.3) was in force between 1995 and 2006. From 2006 a semi-fixed exchange rate regime was implemented. Since 2014, the People's Bank of China (PBC) has intervened in the foreign exchange market, depreciating the yuan in a controlled manner. Thus, we return to foreign exchange reserves and their functionality by allowing, together with control over capital flows, conditions to PBC intervention on the exchange rate and, on a strategic level, to the socialization of investment itself.

4. Conclusion

In this paper, taking as a starting point the notions of complementarity between State and market, and socialization of investment in Keynes; the key role of the financial system in the backwardness development process in Gershenkron; Rangel's emphasis on cyclical changes in the relationship between State and private initiative throughout the development process; and also the hypothesis of uneven growth of Hirschman giving prominence to public investments; we analyzed the process of recent economic development of China. We understand that the analysis of these authors, in addition to being complementary, allows a comprehensive analysis of processes of backwardness economic development, such as Chinese case.

The proposed approach (Keynes-Gerschenkron-Rangel-Hirschman) allowed us to understand the overall growth dynamics in China in order to perceive the prompt response to the 2008 crisis not as a spontaneous thing. In particular, we seek to show that the tools used were being refined and internalized at each cyclical round of institutional changes and consequent transformation of the relationship between State and private sector. The 'socialization of investment' and its mechanisms would be the maximum expression of a process of building institutions capable of reflecting, over time, the development strategy of the country. This approach, in addition to proposing to overcome poor paradigms ('marketers' versus 'statists') is a counterpoint to 'statist' notions of the Chinese development process, allowing us to have a broad and integrated view of this peculiar and complex reality.

The advance of the private sector throughout the post-1978 period was countered by State action at other levels: from the ZEEs installation to the foreign trade/industrial policy planning that would contemplate the shift of exports of labor-intensive goods by more capital-intensive ones; from developing a powerful public financial system and formation of 149 State-owned business conglomerates. A broad private sector advancement in the economy did not exempt the formation of a powerful new State sector, notably from the 1990s. In theory, this means that the Chinese ownership structure is still very different from other parts of the world. This process is directly reflected in a continuous increase of government share over national income flows from the second half of the 1990s: from 13.5% of GDP in 1996 to 37.3% in 2015 (Naughton, 2017, p. 5).

On the other hand, we can clearly note that China is currently experiencing an internal transition of accumulation dynamics, which demands a greater weight of consumption at the expense of the investment. Combined with a more uncertain international economic environment, this internal Chinese transition takes more complicated contours with a series of explosive social, regional and environmental contradictions coming into force. Furthermore, a slow process of internationalization of its currency has been combined with greater financial liberalization. It is evident that new modalities of State action and planning will have to be prepared such challenges. Liberalizations in China have always been followed by State action on another level.

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