

Research on the Historical Background and Practical Significance of Sang Hongyang's Grand Question

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ABSTRACT

This paper studies the historical background, contents, and realistic implications of Sang Hongyang's Grand Question. Based on solid research, one can see that it is crucial for China to uphold and stick firmly to its own socialist economic system with Chinese characteristics that is legitimately rooted in its long history of effective governance for a super-large state. Furthermore, with its own development and success, China demonstrates the urgent necessity of finding the proper way of economic development and political model which should suit the national conditions of different countries.

Keywords: Sang Hongyang's Grand Question, Super-large state, Political model, Economic system.

1. INTRODUCTION: HISTORICAL BACKGROUND AND CONTENTS OF SANG HONGYANG'S GRAND QUESTION

The reign of Emperor Wudi (141 BC-87 BC) in the Western Han Dynasty is unique in the history of China. With the formation and improvement of a high degree of centralization and unification, two different ideas have been formed regarding the effective governance of a vast China: the Taoist concept of light taxation and the concept of state monopoly proposed by Sang Hongyang. The policy debate reached its climax in the Salt and Iron Conference held in 81 BC when Sang Hongyang raised his Grand Question concerning the effective and sustainable governance of China as a centralized and unified country. In his defense against the empty talks of light taxation by his opponents, he asked the following three questions that remain essential to China's economic and political system. First, for China as a mega-state, its operation requires huge financial expenditures, and agricultural taxes alone are far from enough. Without extra revenues from national monopoly

over some special sectors such as salt and iron, how could the central government make up the budget deficit? Second, what should the central government do if the national treasury is empty in the event of emergencies such as wars and famines? Third, if the central government does not have an overwhelming advantage over the local governments in various aspects such as finance and military muscle, what will happen if the local forces expand and rebel? [1].

2. REASONS FOR STUDYING SANG HONGYANG'S GRAND QUESTION

The Grand Question raised by Sang Hongyang concentrates on a core issue: how to solve the institutional costs and operational expenses of a super-large country like China. The solution, which has not changed much since Sang Hongyang in the 1st century BC, is to rely on the revenue generated by state-owned enterprises. For example, "the Salt and Iron Franchise" emerged in China as early as the Spring and Autumn Period in the 7th century BC when the state began to hold monopoly over the trade of salt and iron, so as to bring extra revenues

for governmental expenses. This was actually China's earliest franchise system. From the period of Emperor Wu Di of the Western Han Dynasty in the 1st century BC, it was further strengthened by Sang Hongyang. In the Tang and Song dynasties, the Ministry of Industry was set up to administer macro economy. In the Ming and Qing dynasties, the franchised merchants existed. Since the founding of P.R. China in 1949, it has existed in the form of state-owned enterprises.

For centuries, China has relied on its distinctive economic arrangement, either in the form of state monopoly, the Salt and Iron Franchise, or the state-owned enterprises, to provide for the institutional and operational costs of a vast China. In the 1990s, with dramatic changes in Eastern Europe and the disintegration of the Soviet Union, there were serious inflation and financial crisis around the world. In response, economists argued for “shock therapy”, including eliminating subsidies, liberalizing prices, liberalizing trade, reforming the

tax system and privatizing some state-owned enterprises. Behind the pretext of market economy and free trade, economic pillage and colonization by the western countries found its way, and eventually controlled the economic lifeline of developing countries.

Fortunately, however, China has safeguarded its economic sovereignty, and charted its own course of economic development. In the meantime, the reform of state-owned enterprises continued to advance, kept pace with the times, and made new achievements.

According to the statistics of State-owned Assets Supervision and Administration Commission of the State Council, there were 98 central State-owned enterprises as of July 2022, which were mostly distributed in national pillar industries such as communications, petroleum, steel and military industry [2]. Understandably, they play a leading role in the industry and are an important lifeline of the national economy. (“Figure 1”)

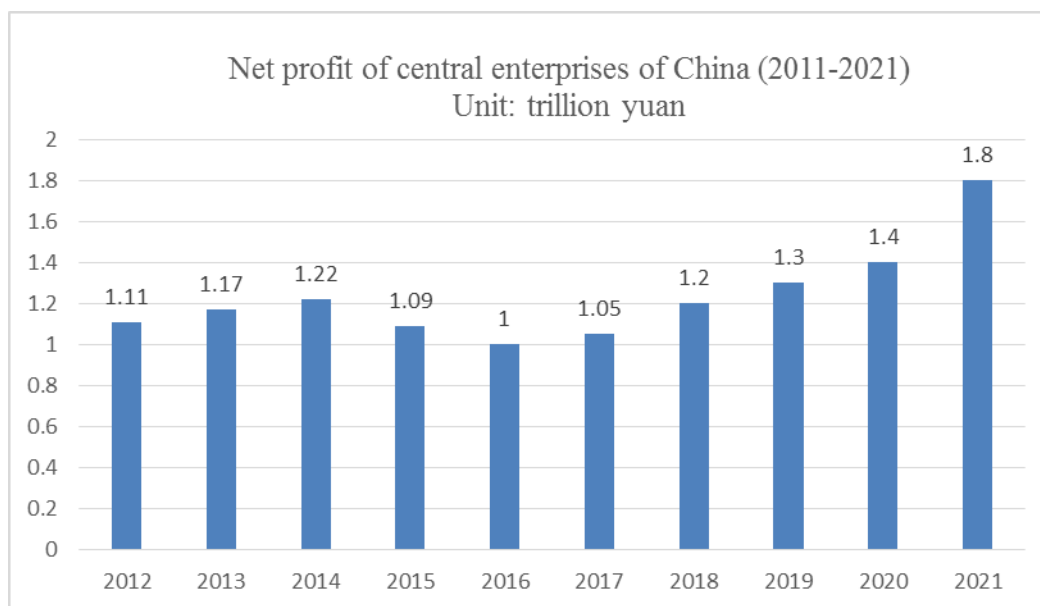


Figure 1 Net profit of central enterprises of China (2011-2021).

a Source: compiled from the official website of the State-owned Assets Supervision and Administration Commission of the State Council, at <http://www.sasac.gov.cn/index.html>

“Figure 1” shows the changes in net profits of central enterprises in China over the last decade. It can be seen that the net profit of central enterprises show a steady growth from the overall trend, thus occupying a crucial place in the economic system of China.

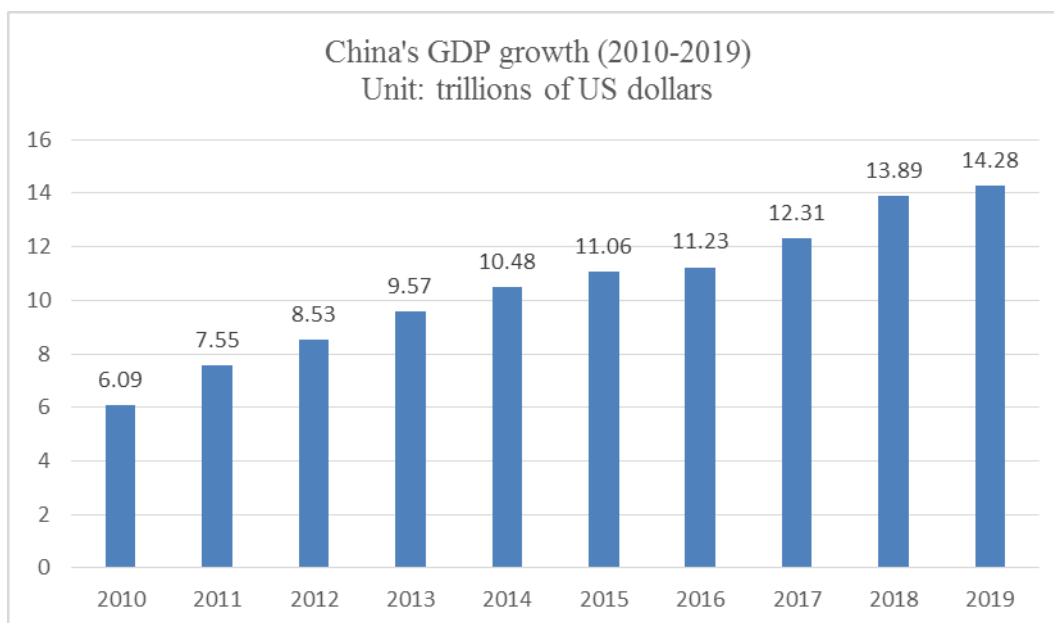


Figure 2 China's GDP growth (2010-2019).

a Source: compiled from the official website of China's National Bureau of Statistics, at <http://www.stats.gov.cn/>

"Figure 2" shows the statistical data of China's GDP between 2010 and 2019. Since the 21st century, China's gross domestic product (GDP) has continued to grow tangibly. In 2010, it overtook Japan to become the world's second largest economy with \$6.09 trillion, and completely dispelled the "Theory of China's Collapse". China's steady GDP growth cannot be achieved without strong central and state-owned enterprises. By 2020, the total assets of China's state-owned enterprises reached 268.5 trillion RMB. According to the statistics of Fortune in 2021, a total of 95 state-owned enterprises were listed in the world's Top 500 enterprises. Three state-owned enterprises ranked among the top five by revenue, while the State Grid Corporation of China ranked second with \$386.6 billions in revenue.

In the face of the once-popular "the End of History" in the West, as well as the persistent rhetoric against China, China cherishes its own unique history, culture, and tradition of economic system, insists on building a socialist market economy with Chinese characteristics, keeps the state-owned as an essential economic pillar of the country, and take into account both efficiency and equality in policy-making. Furthermore, China continued to expose the fallacy and arrogance of those unfounded accusations with its own economic achievements. Due to the widespread ideological hostility of capitalism against socialism, the so-called "Theory of China's Collapse" recurred

frequently, which merely reflected jealousy and hegemonic nature of western powers[3].

It can be seen that by studying the background, key connotation and historical evolution of Sang Hongyang's Grand Question, one can better understand the organic interactions between China's unique political model, economic system, history and culture. With its own unique national conditions, namely, a super-large country, a huge population, a long history of unification, a strong central government, and an economic philosophy that places equal emphasis on efficiency and equality, China has no other choice but to build and develop its own economic and political system that is characterized by socialist public ownership with state-owned enterprises as an indispensable pillar.

3. REALISTIC IMPLICATIONS OF SANG HONGYANG'S GRAND QUESTION

Despite China's unique national conditions and remarkable achievements by its State-owned enterprises, most of the western economists continued to voice their criticisms, which can be listed as the following three points, namely, excessive governmental support that leads to opaqueness and inefficiency, industry monopoly and the large number of state-owned enterprises that disqualify China as a market economy.

For the first point, the core of the criticism is that state-owned enterprises do not have a clear boundary between government and enterprise, as the state will provide financial subsidies and production resources. As a result, every move the State-owned enterprises make in global trade is seen as being somewhat manipulated by the government. But in fact, such an accusation is completely untenable and false! First, China has set the goal of “separation of government and enterprises” in reforming the State-owned enterprises since 1992. Under such kind of reform guideline, Chinese government separates itself from managing enterprises, while limiting itself to the macro-regulation to ensure a long-term and stable economic growth. In the meantime, all enterprises compete freely, openly, and fairly in the market, to flourish or to perish. Today, the overwhelming majority of Chinese enterprises, including state-owned enterprises, are autonomous economic entities that are self-financing and operate in accordance with international business practices! Secondly, the benefits brought by China’s state-owned enterprises are not only reflected in the specific profits, but also in the its great contribution to the general welfare of the public. Over the last decade from 2012 to 2022, the central government owned enterprises have provided a total of 1.2 trillion RMB of state-owned capital to supplement the Social Security Fund of China, implemented the state’s bailout policy to help other enterprises in China, and effectively eased the operating pressure of small and medium-sized enterprises by reducing electricity prices, gas prices, road tolls, and rents. Since 2016, nearly 100 billion RMB of assistance funds have been invested, and all of the 248 least developed counties in China have been lifted out of poverty. In the face of the sudden outbreak of COVID-19, state-owned enterprises responded quickly and effectively to build quarantine hospitals and stations, and manufacture medical supplies of massive scale to control the epidemic[4]. In short, State-owned enterprises in China, while operating as autonomous economic entities, have gone beyond the vulgar pursuit of economic gains to contribute for the greater wellbeing of Chinese people. Thus, it can be seen that the first accusation against Chinese state-owned enterprises is completely groundless and untenable.

The second criticism is that state-owned enterprises monopolize the market. Such accusations are completely false. In fact, China’s small number of monopolies are mostly limited in water, fuel, electricity, and communications, which

are related to people’s livelihood. The particularity of the industry leads to its characteristic of easy monopoly. The consequences of submitting the control over such industries that hold the lifeblood of the national economy to private enterprises can be disastrous for China[5]. At the same time, China is still in the transitional period of the system, which requires a large number of state-owned enterprises to play the role of market regulation. And each country’s legal and economic system is different. As a result, countries do not have one single standard for the proportion of state-owned enterprises in its national economy. It is certainly wrong for western capitalist countries to use their market economy model to measure China’s state-owned enterprises[6]. Looking at the global market, none of our state-owned enterprises can be counted as monopolizing the market. Ironically, most private companies from western countries, such as Qualcomm, which makes chips, Boeing, which makes airliners, and Microsoft Systems, hold monopolies.

Finally, the third false accusation that China is a non-market economy goes back to the time when China joined the WTO in 2001. Under Article 15 of the Protocol on the Accession of the People's Republic of China to the WTO, other WTO members were allowed to use “non-market economy” to calculate its value in anti-dumping investigations against China. The special status was set for 15 years. But after 2016, it was disputed. During the period from 2001 to 2016, the “surrogate country approach” has been used as a booster for European and American countries to determine the dumping margin of Chinese products[7]. The essence of the issue is that the so-called “surrogate country approach” applies to goods from non-market economies. In determining value, it does not use the actual cost of goods in the exporting country. The price of similar commodities in a third or importing country of a market economy is used to calculate the normal value. As China’s commodity maintains a highly competitive edge in the international trade, western countries continue to regard China as a “non-market economy”, so as to curb China’s development. It thus comes as no surprise and also falsely that there are so many anti-dumping cases against China’s enterprises.

4. CONCLUSION

Adam Smith advocated in *The Wealth of Nations* for limited government and governmental

intervention. This has led to the prevalent model of big market and small government in capitalist countries. But the small government economic model has already suffered great drawbacks. First, it will lead to greater decentralization and hollowing out of the industry. Second, it will cause economic crisis, and the disconnection between the virtual economy and the real economy. Third, it creates fiscal and debt crises. Finally, the social polarization is serious and the economy is stagnant[8]. In the United States, for example, since the outbreak of the COVID-19, with tremendous extra expenses, the U.S. deficit hit a record high of 1.7 trillion UD dollars in the first half of 2021. Ironically, the U.S. government had no choice but to rely on the hegemony of the U.S. dollar, constantly sacrifice its national credit and borrow ever-larger amount of money, which has also led to a continued rise in its total national debt. Together with other troubles of rising unemployment and social security benefits, America and many other western countries faces formidable crisis in their national budget and sustainable operation.

China adheres to the principle of building a socialist market economy with Chinese characteristics independently, emphasizing equally on efficiency and equality, combining both the macro-regulation and the market. More importantly, China always formulates its economic policies based on its own unique and long tradition of political governance and economic thoughts, and strives to find its own socialistic development model of economy and governance in an age of globalization. To achieve this, there are three top priorities listed as the following.

First, China needs to firmly oppose the Euro-centrism and uniform Modernity that is aggressive with its hegemonic implications. Such kind of hegemonic theories regard western civilization and political model as superior to all non-western civilizations. Under the pretext of civilizing, modernizing, and democratizing the under-developed countries, the western powers try to legitimize their cultural colonialism and economic plundering.

Second, China needs to maintain its sovereignty and independence unwaveringly, which thus ensures that China can choose its political system and handle domestic and foreign affairs independently. Third, with its own success, China can set a model and offer invaluable lesson for other developing economies of the world that are currently transforming from tradition to modernity

economically, culturally, and politically. By learning from the successful example of China, other developing countries could hopefully strike a balance between its tradition and modernity, between economic efficiency and equality, and eventually find their own course of economic development and political model.

To conclude, the research on Sang Hongyang's Grand Question is tremendously meaningful, as it is the key to the understanding of China's history, economic arrangement, and political system. In the future, China should continue to attach great importance to its state-owned enterprises and safeguard its basic economic system with public ownership as the main body and allowing multiple ownership economies to develop together. With its own development and success, China could exemplify the great necessity of modifying the grand narrative of Eurocentric Modernity to human-centered modernities, and demonstrate the crucial importance of finding the proper way of economic development and political model which fit the national conditions of different countries, instead of copying and transplanting directly from western developed countries.

AUTHORS' CONTRIBUTIONS

Xinghao He wrote the manuscript. Jie Li was responsible for the topic selection, structure of the essay, research focus and revision.

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