China’s Social Market Economy: 
The Leverage of Economic Growth

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ABSTRACT

In 2011, China continues to be the world’s largest recipient of direct foreign investment—which in 2010 totaled US$105 billion. China is also the world’s second largest economy after the U.S. Once a staunchly Communist state, China now advocates a “social market economy” as its business system. The purpose of this paper is threefold. First, this paper seeks to understand what is meant by a “social market economy”. Second, the paper analyzes the traditional shareholder and stakeholder debate by examining different national economies together with their respective societies in terms of business systems. Third, the paper discusses some implications of the emergence of the Chinese economy and business system in the context of potential contributions to social science research. This paper shows that China’s social market economy has many similarities to the stakeholder business system increasingly advocated in global ethics research and presents the challenges to be faced by China’s social market economy in the future.

Keywords: China, Communitarian Business System, Social Market Economy, Stakeholder Business System, Stakeholders

INTRODUCTION

One of the greatest changes in the global economy of the 21st century is the emergence of China’s as one of the world’s largest economies (Song & Schein, 2011). China in 2011 is the second largest economy in the world after the U.S., and continues to be the world’s largest recipient of direct foreign investment, US$105 billion in 2010 (Economist, 2011). China's President Hu Jintao in his visits to foreign countries has declared that China will continue its twenty years of phenomenal economic growth and transition from a Communist to a “social market economy”.

To understand the current Chinese business system and managerial practices requires an appreciation and understanding of Chinese cultural orientations. As China becomes increasingly important to the global economy, it becomes increasingly prudent to understand the mindset of the Chinese business system.
compared to other prevalent systems. Global business environments today, with China having a major role in them, are acting as catalysts for economic changes and the blurring of national boundaries (Sun & Wang, 2010). The impact of these changes combined with the ramifications for firm activities and performance have led to an urgent need to reassess the traditional purely neoclassical, competition-driven frameworks such as that of Porter (1990) used in international management research. Other social science systems of exchange including sociology, anthropology, cultural studies must be incorporated into the research paradigm (Bird-David & Darr, 2009; Chu, 2009). The unique perspective offered by other social science disciplines can better analyze the characteristics of China’s “social market economy” (Honig & Christie, 2003; Perraton, 2009; Schrank, 2009) than traditional models.

The global balance of economic power is shifting away from the US and Europe towards Asia. Attention today is being directed toward emerging countries especially China as one of the major countries to bail out Europe from the present financial - institutional economic crisis (Berger & Herstein, 2012). Economists forecast that Chinese consumers will mitigate the effects of the present slow down in the Western developed economies. China is seen as the catalyst for economic global growth as the West is gradually entering a period of economic stagnation and institutional turmoil. As China becomes more integrated and active as a global policy setter managerial relationships between Western and Asian countries are receiving heightened interest (Barnes et al., 2011; Song & Schein, 2011). What constitutes good managerial practices are not universally shared around the world. As China is emerging as a dominant economic power, understanding the direction in which its management theory is developing is of high importance for policy makers, academics and business leaders alike.

Theoreticians must move away from neoclassical, economics-driven frameworks in the study of the role of business in society and models of corporate social performance, social control of business and stakeholders that predominated throughout the 1980s and 1990s (Donaldson & Preston, 1995; Shamir, 2009). Indeed, only following or as result of the global financial crises of 2008 and 2009, and the corporate scandals of Enron, WorldCom, Adelphi, and Global Crossing and others in the early 21st century, have social science researchers begun to think in a more pluralistic way in terms of ethics as well as the diversity of comparative business systems (Glynn et al., 2000; Gonzalez, 2003; Kilduff & Dougherty, 2000; Reed, 2002). Nevertheless, there has been relatively less research on China’s national business system or its social market economy and the factors that are influencing the emergence of one of the world’s largest economies (Berger & Herstein, 2012).

The present paper aims to fill in this lacuna, at least partially. Specifically, this paper has three objectives. First, we examine the meaning of a “social market economy”, which has been used by the Chinese to describe China’s business system. Second, we analyze the traditional shareholder and stakeholder (Freeman, 1984) debate in terms of business systems and management research, looking at the economy together with society. We show that China’s social market economy has many similarities to the stakeholder business system increasingly championed by today’s global ethicists. Third, we discuss the implications of the emergence of the Chinese economy, and the Chinese business system (Child & Tse, 2001; Tan & Peng, 2003) in the context of potential contributions to social science research.

**Comparative Business Systems**

The revival of interest in comparative economics – a popular academic subject up to the disintegration of the Soviet Union – in the twenty-first century focuses on the issue of competing models of capitalism, or *business systems*. For example, the sustained success of the German and Japanese economies constitutes an alternative model of political economy often called alliance or Communitarian capitalism (Chu, 2009; Gonzalez, 2003; Perraton, 2009; Reed, 2002; Schrank, 2009). Alongside these systems is that of China, with its *dramatic and continuing global economic and business rise*. 
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