



A cargo ship at the Port of Los Angeles, the nation's busiest container port, in September 2018 as China and the US exchange import tariffs. (Credit: Mario Tama/Getty Images North America/Getty Images News)

Expert Comment

Entrepreneurship in the context of Western vs. East Asian economic models

Peter W. Heller (2020)

Copyright © 2020 by Dialogue of Civilizations Research Institute

The right of Peter W. Heller to be identified as the author of this publication is hereby asserted.

The views and opinions expressed in this publication are those of the original author(s) and do not necessarily represent or reflect the views and opinions of the Dialogue of Civilizations Research Institute, its co-founders, or its staff members.

All rights reserved. No part of this publication may be reproduced, distributed, or transmitted in any form or by any means, including photocopying, recording, or other electronic or mechanical methods, without the prior written permission of the publisher, except in the case of brief quotations embodied in critical reviews and certain other noncommercial uses permitted by copyright law. For permission requests, please write to the publisher:

Dialogue of Civilizations Research Institute gGmbH
Französische Straße 23
10117 Berlin
Germany
+49 30 209677900
info@doc-research.org

Entrepreneurship in the context of Western vs. East Asian economic models

Peter W. Heller

Recent developments in the global economy, notably the accelerating trade war between the US and China and the impact of the Covid-19 pandemic, have fuelled the debate as to which model of economic development, Western or East Asian, is more competitive in a long-term perspective.

The intention of this paper is a brief investigation, based on historical and empirical research, into the role of entrepreneurship as a major factor of competitiveness and a key driver of economic development in both models.

The Western liberal narrative envisages a determined course of history in which economic progress will inevitably drag East Asia on a trajectory towards the Western model. There is sound evidence that this will not happen.

The nexus of entrepreneurship and economic development

The word 'entrepreneur' emerged quite late in the history of economic literature; it was introduced by the Irish-French economist Richard Cantillon in his *Essay sur la Nature du Commerce en Général*, published posthumously in 1755. Cantillon's concept of the entrepreneur tells of a risk-bearer and discoverer of market opportunities. Its focus on risk-taking and alertness sets it apart from the idea of the entrepreneur as the organiser of factors of production, which dominated the classical economic thinking of Adam Smith, Jean-Baptiste Say, Karl Marx, and later the neoclassical school of Walras et al. until the end of the 19th century. The classical entrepreneur is not a capitalist, not a landlord, not an employer or manager, although these distinct roles of agency in a market economy often merge in one person.

He "must be a decision-maker... It is his function and this function alone that deserves the title of 'entrepreneurship'" (Blaug, 2000, p. 76). The almost *automatic* process of investment and production at the core of classical and neoclassical economic models

blended well into the general equilibrium theory of Walras, which has no need of a theory of entrepreneurship. Its *static equilibrium*, conceived in resonance to Newtonian mechanics, does not leave any room for dynamic change in economic development. The world of discoverers, explorers, overseas trade, and other risky ventures driven by entrepreneurs *avant la lettre* did not play a systemic role in classical economics; the entrepreneur remained “a shadowy entity without clearly defined form and function” (Baumol, 1968, p. 64).

However, the significant advancements of the second industrial revolution in the early 20th century provided new evidence that economic development was powerfully driven by other forces than the conventional allocation and coordination of production factors in a static framework.

Josef Schumpeter conceived an entirely different perspective on economic development. He perceived economic growth, progress, and development as the result of *entrepreneurial innovation*, which does exactly what neoclassical economists abhor: the creative destruction of static economic equilibria by introducing *new combinations of production factors*, including technical innovations, thus shaping economic development in a state of permanent disequilibrium:

“This concept covers the following five cases: (1) The introduction of a new good ... (2) The introduction of a new method of production ... which need by no means be founded upon a discovery scientifically new ... (3) The opening of a new market ... (4) The conquest of a new source of supply of raw materials ... (5) The carrying out of the new organisation of any industry, like the creation of a monopoly position ... or the breaking up of a monopoly position” (Schumpeter 1934, p. 66).

Triggered by innovation and entrepreneurial leadership, creative destruction does not happen exclusively in market economies. Schumpeter ascertained that it has its place under vastly different historic conditions and diverse social and political contexts, and can, as an almost omnipresent phenomenon, thrive as well in a socialist economy, or a *primitive horde* (Schumpeter, 1926, p. 111).

The idea of a continuous structural change caused by entrepreneurship, which drives economic development, had a tremendous impact on economic thinking, ranging from growth theory (Abramowitz, Solow) to enquiries into the dynamics of innovative firms (Porter), to economic history examining the relationship between institutional change and economic and technological progress (North).

The third industrial revolution, spreading internet-based commerce and communication globally, raised a new awareness about the importance of *science-driven entrepreneurship*, as technology-driven companies such as Apple, Alphabet, and Microsoft have become global market leaders, and about the need to create an enabling *ecosystem* conducive to commercial success on a previously unprecedented scale.

Douglass North, a co-founder of the New Institutional Economics school in the US, illuminated the fundamental importance of institutions for economic development. Although his enquiries into economic history are firmly rooted in the neoclassical tradition of methodological individualism and a firm belief in the superiority of Western liberal market economies (North and Thomas, 1973), he acknowledged that the neoclassic credo “just get the prices right” had failed to capture the dynamics of economic development. He discovered the crucial importance of the institutional framework of an economy in shaping and protecting property rights – through the *credible commitments of governments* – to provide entrepreneurs with incentives to set up new business activities. North’s analysis gave Schumpeter’s entrepreneur-centred theory of economic development a firm grounding in economic history, readily adopted by the World Bank which, after 1980, started to globally convey the message: *institutions matter*.

Global empirical research on entrepreneurship and competitiveness

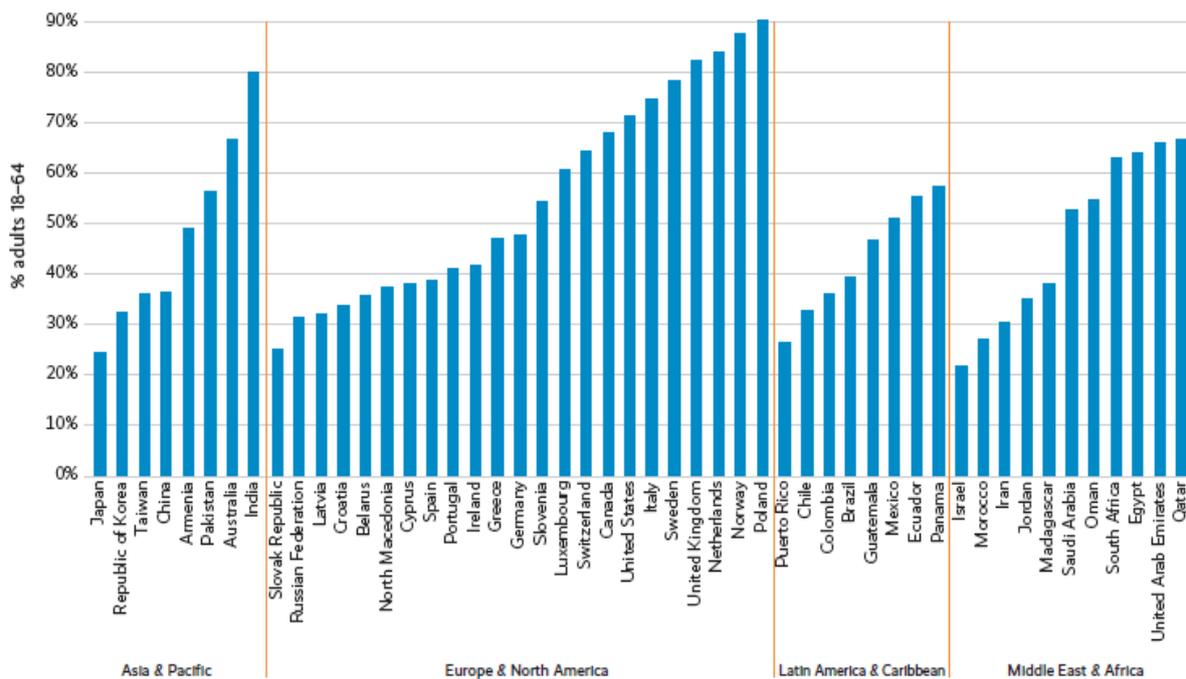
Empirical research on the impact of entrepreneurship on economic development is based on the work of Schumpeter and his followers as its primary theoretical source. Over the last 20 years, the Global Entrepreneurship Monitor (GEM) initiative has compiled the most comprehensive international database on entrepreneurship¹. More than 150,000 adults from 50 economies participated in interviews for its 2019-2020 report. Even broader in scope (141 economies examined) and focusing on economic development from a wider perspective is the World Economic Forum’s Global Competitiveness Index 4.0 (GCI). In its 2019 report, the authors use the metaphor of creative destruction to describe the challenge of mitigating the adverse social effects of fast technological advancements: “In the Schumpeterian process of ‘creative destruction’, creativity must be encouraged, and the destruction must be managed” (GCI, 2019, p. 7).

¹ Permission to use figures from the GEM 2019/2020 Global Report, which appear here, has been granted by the copyright holders. The GEM is an international consortium and this report was produced from data collected in, and received from, 54 economies in 2019. My thanks go to the authors, national teams, researchers, funding bodies and other contributors who have made this possible.

The Global Entrepreneurship Index (GEI), a research programme based on data from GEM and GCI, introduces the concept of the entrepreneurial ecosystem with a reference to the same tradition: “Ever since the time of Schumpeter the concepts of entrepreneurship and innovation have been intertwined with economic development” (GEI, 2019, p. 2).

What does the quantitative research of GEM and GEI tell us about the entrepreneurial element in the competitiveness of the Western versus the East Asian economic model?² It comes as no surprise that the Western economies rank at the top of the list:

Figure 1: In my country, it is easy to start a business (% adults)



Source: GEM (2020, p. 31), used with permission

Adults who aspire to start a business see the entrepreneurial ecosystem in countries like the UK, US, Poland, Sweden, or Canada as significantly more supportive than in any country in the MENA region or Latin America. In Asia, only India finds a place in the top ranks, in sharp contrast with China, Taiwan, and especially Japan at the low end of the spectrum. The individual perceptions of opportunities in national *business start-up culture* differ widely from country to country; in Europe, Western countries score higher than Eastern countries

² An introduction into the methodology of GEM, GEI, and GCI would be beyond the scope of this paper. Data on the entrepreneurial ecosystems are sorted into groups (pillars) of indicators; in the case of the GEI, these are (entrepreneurial) attitudes, abilities, and aspirations.

– with the exceptions of Poland and Slovenia. In Asia, the Indian subcontinent scores higher than East Asian countries.

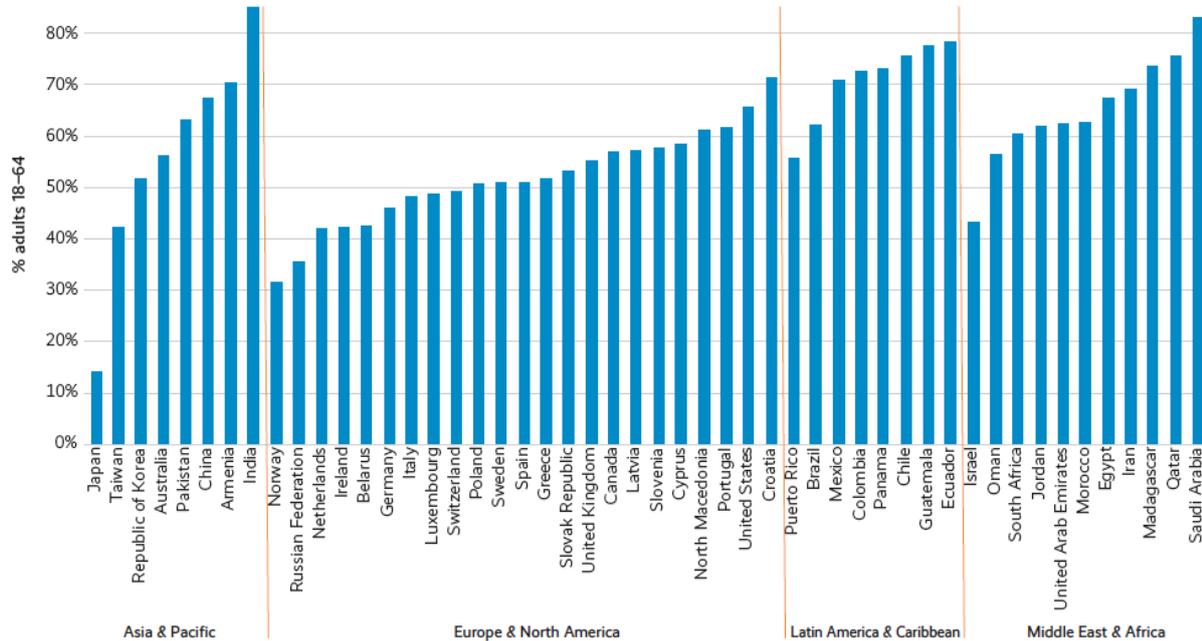
The correlation of the social and cultural incentives for starting a business with income per capita is apparently weak: low-income India scores higher than high-income Sweden; low-income Puerto Rico and high-income Japan are at the bottom of the ranking list.

“It may be that some high-income economies have policies and conditions that foster entrepreneurship, while others do not, even if the general business environment is highly advanced. On the other hand, in some low-income economies, there may be few constraints on business activity, while other economies have uncertain operating environments” (GEM, 2020, p. 30).

In the application of North's theory, the presence or absence of a credible commitment by governments to protect property rights and sanction breaches of contractual obligations is an essential element of the dynamics of a national business culture and thus the potential for economic progress.

Do people see themselves as potential entrepreneurs, do they think they have the necessary skills, knowledge, and experience at their disposal to successfully start an enterprise? The GEM survey gives evidence of a vast difference between perceptions of the external ecosystem (Fig. 1) and self-perceptions (Fig. 2).

Figure 2: You have the knowledge, skills, and experience to start a new business (% adults)



Source: GEM (2020, p. 32), used with permission

Contrary to participant views of the entrepreneurial ecosystem, China is classified – in terms of self-perception – higher than the US; in Europe and North America, Norway drops from second place down to the bottom. Participants in other countries perform more consistently on both questions, e.g., the Russian Federation and Japan keep their place at the lower end.

The GCI 2019 report from the World Economic Forum draws a different picture. It applies a wider set of indicators to its ranking process for competitiveness, in which entrepreneurship is only a part, a subset of the analysis. The computation of the GCI Index is based on successive aggregations of scores, from the disaggregated level of the 103 single indicators to the overall GCI score as the highest level. The indicators are aggregated in twelve pillars and the pillars are organised in four overarching components: enabling environment; human capital; markets; and the innovation ecosystem. The GCI methodology blends objective indicators based on macroeconomic data with subjective indicators derived from the annual WEF Executive Opinion Survey, *The Voice of the Business Community* (GCI, 2019, p. 633).

Environmental sustainability, social cohesion, and inequality issues are examined with regard to their impact on national competitiveness, aspects which play a marginal role in the GEM and GEI surveys. The importance of an intact social fabric, including the health

sector and care economy, is more broadly reflected in the ranking system. The GCI report puts the East Asian economies at the top of its ranking list: “Led by Singapore, the East Asia and Pacific region is the most competitive in the world, followed by Europe and North America... Among the BRICS, China is by far the best performer, ahead of the Russian Federation” (GCI, 2019, p. IX).

The WEF’s more comprehensive approach to competitiveness evokes the narrative of a close race between the Western and the East Asian economic models. Inflexible institutions, deficits in infrastructure, and weaker skills and entrepreneurial ecosystems in the East are compensated for by its superior product and labour market capacities and financial support systems which provide competitive advantages in international markets.

The GEM, GEI, and GCI reports assess and rate national economies with a *heavy Western bias*. The GEM/GEI approach examines the entrepreneurial ecosystem exclusively from the perspective of methodological individualism: “The GEM approach looks ... at individuals, assessing attitudes and perceptions towards entrepreneurship ... This allows for a unique profile of entrepreneurship in society” (GEM, 2020, p. 23). However, in East Asia, that approach does not capture the cultural, social, or economic role of collective forms of entrepreneurship in an adequate way. A prominent example is the town-and-village enterprises (TVE) in China, which emerged after 1978 in the wake of Deng Xiaoping’s economic reforms. His *Four Modernisations* programme was extended to households to provide rural areas with urgently needed goods and services. Although subordinated to the town and village governments and owned and operated by a collective of peasants, in practice those TVEs act in the market as private companies: “TVEs can be regarded as the beginning of contemporary Chinese entrepreneurship” (Li, 2013, p. 20). We shall return later to the evolution of the entrepreneurial culture in East Asia, which followed quite a different trajectory to its counterpart in the West, particularly in countries where a socialist revolution had taken place.

The GCI 2019 report, firmly anchored in the Western liberal tradition, celebrates high-powered competitiveness as the only solution to reconcile fast economic development, environmental degradation, and rising inequality: “The perceived trade-offs between economic, social and environmental factors may emerge from a short-term and narrow view of growth but can be mitigated by adopting a holistic and longer-term approach to growth”. (GCI, 2019, p. 6).

But the acceleration of climate change and global loss of biodiversity do not provide any evidence that higher competitiveness provides a convincing recipe to solve the dilemma

of divergent policy imperatives (Ibid, pp. 25-28). On a parallel track, differences in competitiveness have had no coherent impact on the gap between rich and poor, which has grown dramatically since 2000 in the majority of OECD countries (Ibid, pp. 31-32). The GCI report 2019 tries to save its line of argument by constantly flipping from its empirical assessments, based on its comprehensive database, to normative prescriptions for what national economies ought to do in search of *holistic solutions*, always under the following pretence: “The GCI shows that the combination of growth, equality and sustainability is indeed achievable – and must be the urgent work of policy-makers around the world over the next decade” (Ibid, p. 8).

The magic wand which dissolves all contradictions and oxymora in this complex game is *total factor productivity (TFP)*, “... the ‘unexplained’ part of GDP growth, which encompasses all non-physical inputs, such as technological progress, human capital, and institutional and cultural factors” (Ibid, p. 26). TFP is at the core of the GCI ranking system, and the entrepreneurial ecosystem is a key element of TFP. Despite the significant differences in methodology, the GEM, GEI, and GCI reports converge in giving entrepreneurship and competition a major role in the economic development of nations and regions. They mirror the firm belief in Western liberal economics, prominently elaborated by North, that the rule of law and the security of property rights, guaranteed by the credible commitment of governments, are unrivalled in reducing uncertainty for entrepreneurs and risk for private investors.

Do they adequately capture the rise of the successful economies in East Asia? That remains questionable indeed, as in that region other cultural, social, and economic forces seem to be at work that do not easily fit into the Western *freedom and democracy* paradigm.

Scepticism about the systemic superiority of the Western economic model has been voiced – after Marx and Engels – by economists from the German Historical School, whose writings influenced Schumpeter, the very economist whose theory has been widely embraced by liberal economists and policymakers since the 1980s. Gustav Schmoller, one of the most influential scholars of the Historical School, illuminated the ambiguity of entrepreneurship as “both a productive and destructive force of economic development” (Ebner, 2005, p. 262). Higher productivity and fast product creation stand against growing inequality, exploitation of workers, and a general social disintegration, manifest in business elites’ lack of responsibility for the common good (Schmoller, 1875, pp. 131-132).

In his major early work, the *Theory of Economic Development*, Schumpeter himself argues that entrepreneurial creative destruction is not exclusively linked to liberal market

economies. He is deeply sceptical about the future of capitalist economies, for which he predicted a gradual transition from a dynamic and innovative *entrepreneurial state* to a *rentier state*, mired in *trustification* and stagnation and also that organisational change brings forth the formation of larger corporations and powerful bureaucratic routines and pushes individual entrepreneurial leadership to the side-lines of advanced market economies.

Schumpeter assumes that socialist countries find their own opportunities to reinvent themselves as *entrepreneurial states* that put the entrepreneurial function, the discovery of new combinations, in the hands of government agencies (Ebner, 2009, pp. 371-373). In his later work, Schumpeter confirms and extends the essential role of the entrepreneurial state for economic development, in particular its options for a creative adaptation of private-sector innovations in technology, business administration, and finance. He suggests that non-Western economic models, based on histories of socialist revolutions, are not at a *systemic* disadvantage in being able to generate rapid economic growth: “Every social environment has its own ways of filling the entrepreneurial function” (Schumpeter 1949, p. 255).

Mariana Mazzucato provides ample evidence that technological breakthroughs are due to public and state-funded investments in innovation and technology and that the private sector only finds the courage to invest after an entrepreneurial state has made the high-risk investments (Mazzucato, 2013). Joseph Stiglitz confirms that argument: “For many of the billions in the developing world and emerging markets, China, using its distinctive ‘socialist market economy with Chinese characteristics’, has provided a dynamic alternative vision to that of America” (Stiglitz, 2019, p. 28).

Entrepreneurship in East Asia

Town-and-village enterprises (TVE) in China have already been briefly introduced as the forerunners of modern Chinese entrepreneurship. In light of North’s theory, the specific institutional settings of TVEs differ significantly from those in Western economies, where private property rights are firmly guarded by law: “Under the TVE system, formal ownership is vested in local towns and villages, but the enterprise is run as if privately owned ..., [a regulation which is] not easy to reconcile with North’s narrow concept of property” (Faundez, 2016, p. 383).

According to Huang, in 1985, “... of the 12 million businesses classified as TVEs, 10 million were *completely* and *manifestly* private” (Huang, 2008, p. XIV). Yet the TVE sector was severely hit by the economic reforms in the mid-1990s; the official hostility towards

private entrepreneurship forced them to restructure substantially and many went out of business. With increased market integration and competition and the government's preference for foreign-owned enterprises, TVEs lost their competitive position.

Another dynamic East Asian economy, Vietnam, developed a similar transitional structure of business ownership before its private sector covered the majority of its national economy. However, both countries chose different paths to transform their economies: "While Chinese reforms are normally treated as a classical example of gradualism, Vietnamese reformers introduced Polish style shock therapy treatment (instant deregulation of most prices and introduction of convertibility of the dong) ... and still managed to avoid a reduction of output" (Popov, 2014, pp. 96-97).

The socialist revolutions in China and Vietnam wiped out feudal rule and foreign domination and pushed both countries on to the development path of export-oriented market economies in the late 1970s. Even in Singapore and Malaysia, where no socialist revolutions occurred, a political infrastructure emerged with a closer resemblance to China and Vietnam than to the American and European economic model.

Milanovic calls the East Asian economic model *political capitalism*,³ as opposed to the *liberal meritocratic capitalism* in the West. It bears three distinct characteristics: (i) an efficient bureaucracy; (ii) the *de facto* absence of the rule of law; and (iii) the autonomy of the state:

"... bureaucracy has as its main duty to realize high economic growth and implement policies that allow this goal to be achieved. Growth is needed for the legitimization of its rule. The bureaucracy needs to be technocratic and the selection of its members merit-based if it is to be successful, especially since the rule of law is absent" (Milanovic, 2019, p. 91).

Deng Xiaoping, the eminent architect of the model of political capitalism, rigorously pursued an approach in which "capitalists' interests were never allowed to reign supreme, and the state retains significant autonomy to follow national-interest policies and, if needed, to rein in the private sector" (Ibid, pp. 92-93).

When Deng Xiaoping started his economic reform programme, 'The Four Modernizations', in 1978, the percentage of urban workers employed by state-owned enterprises (SOE) was around 80% of the total workforce and the industrial output produced

³ He borrows the term 'political capitalism' from Max Weber, who defines it as the use of opportunities for predatory profit from political organisations or persons connected to politics (Weber, 1978, pp. 164-165).

by SOEs close to 100%. Until 2016 the SOEs share of the total workforce had fallen to less than 20%.

Milanovic argues that the three characteristics of political capitalism inevitably lead it into two contradictions: "... [First,] a technocratic elite is educated to follow the rules and to operate within the confines of a rational system. But arbitrariness in the application of the rules directly undermines these principles. The *second contradiction* is that between (i) inequality-increasing corruption, which is endemic in such systems because the discretionary power granted to bureaucracy is also used by its various members to obtain financial gain, the higher their position, the greater its use; and (ii) the need, for reasons of legitimacy, to keep inequality in check" (Milanovic, 2019, pp. 93-94).

Thus political capitalism is constantly moving along an unstable equilibrium, confronted with different but equally powerful challenges to those of its liberal Western counterpart.

How does Schumpeterian entrepreneurship, i.e., creative destruction, thrive in an economic model with substantial institutional ambiguities like insecure property rights, endemic corruption, or an unconditional precedence of national political interests over economic development?

After the launch of Deng's Four Modernizations programme and China's entry into the WTO in 2001, "a kind of fuzzy property rights arrangement" (Li, 2013, p. 26) persisted, most entrepreneurial ventures still emerged under the umbrella of TVEs – the so-called *red hat strategy* – which made it easier to conceal private ownership and provided basic legitimacy for commercial business development. In the new millennium, political capitalism in China and Vietnam – after both countries had observed the earlier economic rise of the East Asian 'Tiger' states – gradually upgraded its support policies for technological innovation and its market implementation by private enterprises. In 2015, China's State Council launched a comprehensive entrepreneurship and innovation strategy (*Opinions on Several Policy Measures to Promote Mass Entrepreneurship*); in 2019, the government issued guidelines for better protection of intellectual property rights. Parallel to those policies to secure a safer institutional space for property rights, a *business angel market* emerged in China, which for the first time enabled start-up entrepreneurs to get access to early-stage venture capital. "[T]he Chinese market of business angel investments today plays an increasingly noticeable role." (Reshetnikova 2018: 513)

Easy access to venture capital and private equity is widely considered a crucial prerequisite for a dynamic entrepreneurial ecosystem. Step by step, the East Asian economies have implemented efficient support mechanisms in the development of their domestic financial markets, particularly their private equity and venture capital segments. Today, the gap between Western and East Asian entrepreneurs' access to capital is but a gradual one.

The impact of corruption on the entrepreneurial ecosystem and economic competitiveness has been controversially disputed since the 1960s. Leff, Huntington, and Leys claim that corruption can foster the realisation of major infrastructure projects and drive an ambitious economic growth policy, as it *greases the wheels* in the complex public-private economic engine (Tomaszewski, 2018, p. 252). The speed of the engine depends both on the innovative capacities of the entrepreneurial ecosystem and the responsiveness of government institutions whose collaboration in the planning and execution of the projects is indispensable.

In contrast, North and Baumol, in their historical research on the *allocation* of entrepreneurship (Baumol, 1990), highlight the detrimental effect of corruption on economic growth – *sand in the wheels* – caused by the distorted policies of bribed government institutions, which lead to higher transaction costs and uncertainty for enterprises and to lower investment in the private sector (Tomaszewski, 2018, p. 253).

In the case of China, competing local governments have developed a complex system of *special deals* to build and promote local enterprises as champions for rapid economic growth in their region (Bai, Hsieh, and Song, 2019, pp. 2-6). Those special deals are an essential part of inter-local and inter-regional competition; first and foremost, they drive innovation and creative destruction. Milanovic argues that a certain level of corruption is an inevitable side effect of globalisation and inextricably linked to the free movement of capital and labour, and therefore a 'normal' element of both economic models:

“Corruption ... is spurred by the ideology of money-making, which is the ideology that underlies capitalist globalization, and it is made possible thanks to the mobility of capital. But in addition, both political capitalism and the trend toward plutocratic rule in liberal capitalism, normalize it” (Milanovic, 2019, p. 131).

Indeed, the abundant *legal* lobbying activities of corporations in Western countries have similar systemic potential to distort public economic policy and generate even higher levels of inequality than *illegal* corruption does in political capitalism.

After 2010, China's leadership acknowledged the risks of rampant domestic corruption spinning out of control. In 2012, the National Congress of the Communist Party launched a sweeping nationwide campaign to reign in bribery and the abuse of political power. More than 100,000 citizens were indicted between 2012 and 2015; the relentless anti-corruption policy of the Chinese government became a hallmark of Xi Jinping's presidency (*Economist*, 2015). Economists are still debating whether that campaign and subsequent anti-corruption initiatives have had a tangible impact on the slowdown of China's economic growth since 2012.

As previously outlined, the World Economic Forum's 2019 GCI report appreciates these efforts over recent years and celebrates China as the *competitiveness champion* among the BRIC economies. There is strong evidence that up to now, China's version of political capitalism has managed to keep its systemic contradictions at bay and to generate impressive economic growth in comparison with other transitional economies, prudently replicated by Vietnam in its wake: "...for the first time in history *successful economic development on a major scale is based on an indigenous, not Western-type economic model*" (Popov, 2020, p. 28; original author's emphasis). Milanovic concludes that we are presently witnessing an open contest of competitiveness between liberal and political capitalism: "which one does it better is an empirical question" (Milanovic, 2019, p. 119).

But is it an *empirical* question? I doubt it. More research based on statistical data can probably provide further insights into the *difference* between the two models but it will fail to illuminate the *otherness* of the East Asian economic model with regard to the Western model. That otherness in its history, traditions, values, and its social and economic interactions, lies beyond the reach of economic science.

The entrepreneurial self, *tianxia*, and the welfare state

Western liberal capitalism has embraced the concept of entrepreneurship as a key factor of competitiveness and driver of economic growth. It partly reinvented itself by focusing on start-up business cultures working on creative destruction as an escape route from *trustification* and stagnation. Its growing popularity has pervaded all subsystems of the economy: young enterprises compete for a champion or even *unicorn* market position (a valuation of over \$1 bn.); venture capital and private equity companies compete to discover

the *next big thing* to make their investors rich; and employees transform themselves into *intrapreneurs* competing with their teammates in delivering the best performance to increase the company's share value and stakeholder value.

That pervasiveness of competitive thinking and behaviour manifests itself in the massive media appeals for *empowerment, total quality management, and disruptive innovation*, the growing pressure of self-optimisation that locks citizens firmly in a Hobbesian world dominated by *friend-foe* relations, and creates an inherently violent society constantly at war with itself and others, *homo homini lupus*. That mindset, the *entrepreneurial self* (Bröckling, 2016), has taken hold wherever the debordering of markets in the process of globalisation linked more countries and communities to the Western model and subordinated them under Western hegemony. In Schumpeter's words, the entrepreneurial self has "the dream and the will to found a private kingdom, ... the will to conquer: the impulse to fight, to prove oneself superior to others" (Schumpeter, 1934, p. 93).

The philosopher Zhao Tingyang perceives other forces at work in China, past and present. He has developed an authentic, indigenous Chinese theory of (political and economic) world order based on the concept of *tianxia*, 'all-under-heaven', which was conceived about 3,000 years ago in the Zhou dynasty (Zhao, 2020, pp. 50-59). *Tianxia* has three meanings: (i) the earth or all lands under the sky; (ii) a common choice made by all peoples in the world, or a universal agreement in the 'hearts' of all people; and (iii) a political system for the world with a global institution to ensure universal order.

With the concept of *tianxia*, therefore, the world is understood as consisting of the physical world (land), the psychological world (the general sentiment of peoples), and the institutional world (a global institution) (Zhang 2010). *Tianxia* regards the *world* as the highest political unit, while the Western liberal model puts the nation-state at the centre of its political and economic analysis, even in its global perspectives on international trade or the *clash of civilizations*.

An essential element of *tianxia* is its principle of *non-exclusion*, which leaves no space for anything or anyone being shut out or *ostracised*. It "defines the concept of 'the political' as the art of co-existing through transforming hostility into hospitality" (Zhao, 2018). That *relational* ethical approach, traced back by Zhao to Confucius, gives the Chinese model of economic development a fundamentally different grounding compared with the Western model (Ahlstrom and Wang, 2010, pp. 406-412). It provides a social guarantee for the poor to participate in economic development and keeps inequality at acceptable levels. Zhao emphasises the inclusive character of such economic development, which he calls a

Confucian optimum, in marked contrast to *Pareto-optimal* resource allocations in liberal economic theory (Zhao, 2018).

In an economy ruled by *tianxia* principles, the entrepreneurial self, its radical *methodological* individualism and its restless propensity to self-optimisation, competition, and exclusion would not dominate society. The common good has a superior position in national policy where it holds sway over individual interests. The Western liberal narrative envisages a determined course of history in which economic development will inevitably drag any national economy on to the path to liberal capitalism. But China's economic development and vision for a future world order seems to deviate entirely from that assumed determined outcome, as it is based on non-Western values: "China is, in many ways, the 'absolute other' to our understanding of international order" (Godehardt, 2016, p. 11).

The Western liberal approach to *inclusive capitalism* is the theory of the *welfare state*, which has been developed by mainstream economics in the tradition of Hobbes, Locke, Smith, and Mill. John Rawls built upon the work of these predecessors and conceived an internationally acclaimed theory of the national welfare state but he categorically excluded the application of his principles of distributive justice, which set limits to inequality, to the international order. There is no conceptual barrier for inequalities between rich and poor national economies in Rawls' theory, and any resistance of the Global South against the unjustified gap between poor countries and the affluence of Western countries could be a subject of *interventions*. Zhao recognises the legitimation of a modern North-South imperialism as the necessary consequence of that ideology (Zhao, 2020, pp. 193-194).

However, there is another European tradition of the welfare state besides that of Western liberalism, which may find a more appropriate way to connect to the Chinese economic model based on *tianxia*. Leibniz, Rousseau, and Kant have conceived elements of an inclusive and hospitable political and economic world order which comes, at least partly, close to *tianxia*. Zhao explicitly refers to Leibniz's divine *principle* of a possibility of coexistence for all living beings, and to Kant's reflections on the conditions of the possibility of eternal peace (Zhao, 2020, pp. 21, 189-192). Cornerstones of inclusive capitalism were introduced in most EU member states by social democratic parties when they came to power: advanced civil and social security mechanisms – notably healthcare – and more equitable tax and transfer regimes. In these national economies, the public sector generally holds a share of GDP over 40%. Contrary to Rawls' theory, there are no conceptual barriers to a global application of the continental European model of welfare.

Conclusion

In conclusion, it would be worthwhile to juxtapose tianxia and the continental European model to explore their similarities and differences as a subject of future research. The *West versus East Asia* debate could gain new valuable insights if it abandons the idea of a monolithic West.

Peter W. Heller

Co-founder of BASE (Basel Agency for Sustainable Energy), Chairman of the Board of HUMBOLDT VIADRINA Governance Platform gGmbH, Berlin, and member of the Supervisory Council of Cusanus University, Bernkastel-Kues

References

- Ahlstrom, D./Wang, L.C. (2010) Entrepreneurial capitalism in East Asia: how history matters, in: Landström, H./Lohrke, F. (eds.) *Historical Foundations of Entrepreneurship Research*, Cheltenham (Elgar), 406 – 427
- Bai, Chong-En/Hsieh, Chang-Tai/Song, Zheng M. (2019) *Special Deals with Chinese Characteristics*, Becker Friedman Institute, University of Chicago Working Paper No. 2019-74, Chicago 2019
- Baumol, W.J. (1968) Entrepreneurship in Economic Theory, *The American Economic Review* Vol. 58, No. 2, Papers and Proceedings of the Eightieth Annual Meeting of the American Economic Association, May, 64 – 71
- Baumol, W.J. (1990) Entrepreneurship: Productive, Unproductive, and Destructive, *Journal of Political Economy* Vol. 98, No. 5, Part 1, Oct., pp. 893-921
- Blaug, M. (2000) Entrepreneurship Before and After Schumpeter, in Swedberg, R. (ed.) *Entrepreneurship – The Social Science View*, Oxford (Oxford UP), 76 – 88
- Bröckling, U. (2016) *The Entrepreneurial Self*, Los Angeles-London (SAGE)
- Ebner, A. (2005) Entrepreneurship and economic development, *Journal of Economic Studies* Vol. 32 No. 3, 256 – 274
- Ebner, A. (2009) Entrepreneurial state: The Schumpeterian theory of industrial policy and the East Asian "Miracle", in Cantner, U. et al. (eds.), *Schumpeterian Perspectives*

on Innovation, Competition and Growth, Berlin-Heidelberg (Springer), 369 – 390

[The] *Economist* (2015) Robber barons, beware; Oct 22nd

<https://web.archive.org/web/20171213182557/https://www.economist.com/news/china/21676814-crackdown-corruption-has-spread-anxiety-among-chinas-business-elite-robber-barons-beware>.

Faundez, J. (2016) Douglass North's Theory of Institutions: lessons for law and development, *Hague Journal on the Rule of Law*, 8 (2), 373 – 419

[The] Global Competitiveness/GCI Report (2019), Schwab, K./World Economic Forum (ed.), <https://www.weforum.org/reports/how-to-end-a-decade-of-lost-productivity-growth>; retrieved 18.8.2020

Global Entrepreneurship Index/GEI (2019), Ács, Z. et al./GED I Institute (eds.), https://thegedi.org/wp-content/uploads/2020/01/GEI_2019_Final-1.pdf; retrieved 12.8.2020

Global Entrepreneurship Monitor 2019/2020 Global Report/GEM (2020), Global Entrepreneurship Research Association, London Business School, <https://www.gemconsortium.org/file/open?fileId=50443>.

Godehardt, N. (2016) No End of History – A Chinese Alternative Concept of International Order? SWP (Stiftung Wissenschaft und Politik/German Institute for International and Security Affairs) Research Paper No. 2, January

Huang, Y. (2008) *Capitalism with Chinese Characteristics*, Cambridge, Mass. (Cambridge UP)

Li, H. (2013) History and Development of Entrepreneurship in China, in Zhang, T. / Stough R.R. (eds.) *Entrepreneurship and Economic Growth in China*, New Jersey-London (World Scientific), 13 – 34

Mazzucato, M. (2013) *The Entrepreneurial State: Debunking Public vs. Private Sector Myths*, London (Anthem Press)

Milanovic, B. (2019) *Capitalism, alone – The Future of the System That Rules the World*, Cambridge, Mass.-London (Harvard UP)

North, D.C./ Thomas, R.P. (1973) *The Rise of the Western World – A New Economic History*, Cambridge (Cambridge UP)

Popov, V. (2014) *Mixed Fortunes – An Economic History of China, Russia, and the West*, Oxford (Oxford UP)

Popov, V. (2020) Which economic model is more competitive? The West and the South after the Covid-19 pandemic, unpublished manuscript

Reshetnikova, M.S. (2018) Innovation and Entrepreneurship in China, *European Research Studies Journal* Volume XXI, Issue 3, 506 – 515

Schmoller, G. (1875) *Über einige Grundfragen des Rechts und der Volkswirtschaft*, Jena (Verlag F. Mauke)

- Schumpeter, J.A. (1926) *Theorie der wirtschaftlichen Entwicklung: Eine Untersuchung über Unternehmergewinn, Kapital, Kredit, Zins und den Konjunkturzyklus*, 2nd edn., Berlin (Duncker und Humblot)
- Schumpeter, J.A. (1934) *The Theory of Economic Development*, English translation of „*Theorie der wirtschaftlichen Entwicklung*“, 2nd edn. of 1926 by R. Opie, New Brunswick-London (Transaction Publ.)
- Schumpeter, J.A. (1949) *Economic Theory and Entrepreneurial History, Change and the Entrepreneur*, 63 – 84, reprinted in Clemence, R.V. (ed.) (1951), *Essays of J. A. Schumpeter*, Cambridge, Mass. (Addison-Wesley), 248 - 266
- Stiglitz, J. (2019) *People, Power and Profits*, London (Allan Lane)
- Tomaszewski (2018) *Corruption - A Dark Side of Entrepreneurship. Corruption and Innovations*, *Prague Economic Papers* 27(3), 251–269
- Weber, M. (1978) *Economy and Society* vol. 1, Berkeley (UCP)
- Zhang, F. (2010) *The Tianxia System: World Order in a Chinese Utopia*, *China Heritage Quarterly* No.21, March (Australian National University), http://www.chinaheritagequarterly.org/tianhsia.php?searchterm=021_utopia.inc&issue=021.
- Zhao, T. (2018) *Can this ancient Chinese philosophy save us from global chaos?* *The Washington Post* Feb. 7, <https://www.washingtonpost.com/news/theworldpost/wp/2018/02/07/tianxia/>.
- Zhao, T. (2020) *Alles unter dem Himmel*, Frankfurt/M. (suhrkamp stw)