Chinese Growth and Distribution: A Corporate Economy Perspective from Chinese Classical Thought

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Abstract

China's transformation from poverty to global corporate power challenges conventional development theory. This paper applies the General Theory of Economic Development (GTED), rooted in the Chinese classical principle that harmonized differences generate vitality, to reinterpret China as a socialist corporate economy governed by Economic Differentiation (ED). A three-regime dummy-interaction model (1989–2022) shows corporate asset elasticity of growth rising monotonically across the Deng, Hu, and Xi eras, confirming deepening corporate-led growth. CA initially widens inequality but compresses it by the Xi phase, demonstrating endogenous shared prosperity. Openness contributes to both growth and equality in the Xi era. Redistribution suppresses growth in the Deng phase, is absorbed in the Hu phase, and becomes negligible in the Xi phase. The Xi phase delivers the best possible corporate-led shared prosperity, but its Gini intercept rises significantly, raising an open question about the sustainability of its shared prosperity.

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whose insights anticipated central themes of this paper. Historian Zuo Qiuming (左丘明) articulated in his *Guoyu* the aphorisms *hé shí shēng wù* (和實生物, harmony of differences generates life) and *tóng zé bù jì* (同則不繼, uniformity exhausts vitality) — principles that prefigure the complexity economics that would be built twenty-five centuries later. Confucius and Han Feizi gave institutional form to these principles, articulating the incentive architecture that underlies economic differentiation. The author recognizes that the economic trajectories of Japan, Korea, and China are most deeply understood through the lens of this intellectual tradition.

1. Introduction

In 1978, China was among the poorest large economies on earth. Its per capita income hovered around two hundred dollars. Its industrial sector was dominated by loss-making state enterprises. Its corporate sector, in any meaningful sense, did not exist. Forty-five years later, China's per capita income had risen sixty-fold, more than 800 million people had escaped extreme poverty, and Chinese firms occupied more seats in the Fortune Global 500 than those of any other nation. This transformation is without historical precedent. Yet despite its extraordinary scale and speed, mainstream development economics has struggled to produce a convincing account of what actually caused it — and what, if anything, could sustain or threaten it going forward.

The standard answer — that China built a market economy and growth followed — is at best incomplete and at worst misleading. China's economy was not organized around anonymous markets coordinating dispersed individuals. It was organized around large, state-directed, performance-evaluated corporations. The household responsibility system did not create markets; it created incentive-linked performance contracts. SOE reform did not liberalize firms; it subjected them to competitive survival pressure. Regional competition did not establish market prices; it subjected local governments to performance-based evaluation. The common institutional thread running through all of Deng Xiaoping's reforms was not the market. It was the deliberate construction of a corporate economy governed by a single organizing principle: those who perform better receive more; those who perform worse receive less. This logic was captured in what may be called the "rich-led nation" doctrine, expressed in Deng Xiaoping's famous dictum that China should "let some get rich first (让一部分人先富起来, *ràng yī bùfen rén xiān fù qǐlái*)." Chinese classical terms are cited in their original script at first appearance, followed by pinyin romanization and English translation; subsequent references use English only.

This paper argues that the General Theory of Economic Development (GTED; Jwa, 2017a) provides the theoretical framework needed to understand China's trajectory. GTED places the joint-stock corporation — not the market — at the center of capitalist development, and identifies Economic Differentiation (ED) —treating economic differences differently by recognizing the economic performance— as the institutional principle without which no economy or no economic organization can sustain long-run growth. Applied to China, GTED generates a precise and testable narrative: the Deng era built corporate ED from nothing; the Hu era allowed moderate egalitarian expansion while corporate strength absorbed it; and the Xi era has pushed corporate asset intensity

to its highest levels while simultaneously introducing Common Prosperity initiatives that raise the question, central to GTED's framework, of whether the performance-based institutional foundations of corporate-led growth can be sustained as redistributive pressures intensify.

This paper therefore treats China not simply as a country case but as a large-scale institutional experiment through which the general mechanism proposed by the General Theory of Economic Development (GTED) can be empirically examined. In this sense, the Chinese experience functions as a natural laboratory for evaluating whether corporate organization governed by Economic Differentiation (ED) systematically generates the development outcomes predicted by GTED.

The paper tests this narrative empirically using a log-log regression model with regime interaction terms applied to annual Chinese data from 1989 to 2022. The results are consistent with the GTED framework: corporate asset elasticity of growth rises monotonically across the Deng, Hu, and Xi eras, reflecting deepening corporate dependence. Egalitarian redistribution follows a coherent non-monotonic pattern—strongly negative in the Deng era, absorbed in the Hu era, and insignificant in the Xi era. Most importantly, in the Xi era corporate asset growth shifts from widening to compressing market income inequality, while redistribution loses significance on both growth and inequality—consistent with GTED’s prediction that mature corporate development generates endogenous shared prosperity without redistribution.

Beyond its empirical contribution, this paper makes two broader arguments. First, it contends that China should be understood as a socialist corporate economy rather than a socialist market economy — a distinction with profound theoretical implications for how we interpret both China’s past success and its current institutional risks. Second, it argues that China’s Phase 3 evidence offers a mirror for the United States: the corporate-led shared prosperity that China has achieved is precisely the institutional outcome that American policy is inadvertently destroying through the egalitarian drift that GTED identifies as the source of polarized stagnation in the US and most developed Western democracies (Jwa, 2024b; Jwa and Lee, 2025).

The paper is organized as follows. Section 2 examines the intellectual foundations, beginning with Schumpeter's prophetic but incomplete analysis of capitalism and democracy, and then developing GTED's corporate-economy framework as the theoretical completion Schumpeter left unfinished

— including the Chinese classical roots of Economic Differentiation in the thought of Zuo Qiuming, Confucius, and Han Feizi. Section 3 presents GTED's trinitarian framework of market, corporation, and government, the corporate assets variable, and four testable propositions for economic growth and distribution. Section 4 presents an institutional interpretation of Chinese development as three institutional regimes. Section 5 presents the three-regime empirical estimation models of Chinese growth and distribution over the last 34 years. Section 6 reports the empirical results across the GDP and Gini equations. Section 7 interprets China's three-phase development trajectory and the general logic of corporate-led development. Section 8 draws out policy implications: China's crossroads and the Korea warning, the mirror that China's Xi era holds up to the United States, and the universal implications for world development strategy. Section 9 concludes.

2. From Schumpeter to GTED: The Corporate Economy Framework

2.1 Schumpeter's Prophecy and Its Lacuna

No twentieth-century economist came closer to understanding capitalism's institutional logic than Joseph Schumpeter. In Capitalism, Socialism and Democracy (1942), he made an argument that was at once deeply prescient and frustratingly incomplete. Capitalism, he contended, succeeds not because of price mechanisms but because of organized corporate innovation — what he called creative destruction. And capitalism's greatest threat comes not from external enemies but from its own success: as democratic politics matures and living standards rise, egalitarian pressures build. Democracy politicizes economic decisions. Labor gains power and constrains corporate flexibility. Intellectuals critique profit and celebrate redistribution. The performance-reward linkage — the very engine of corporate dynamism — is gradually eroded from within.

Schumpeter went so far as to suggest, controversially, that a disciplined authoritarian system with corporate-managed production could outperform liberal democracy by suppressing the politicization of economic decisions and preserving managerial efficiency (pp. 195–196, 302). He saw, in other words, that the institutional configuration of state and corporate economy matters more than the label — capitalist or socialist — attached to the system. This paper terms what Schumpeter envisioned an "authoritarian corporate economy," and argues that Korea's Yushin

regime and China's post-1978 reforms are its two most successful historical realizations.

Yet Schumpeter's framework has a fundamental lacuna. He celebrated entrepreneurship as capitalism's creative engine but never adequately theorized its organizational vehicle. The isolated entrepreneur — the heroic individual innovator of Schumpeter's earlier work — cannot sustain innovation at scale. Individual entrepreneurs face transaction costs and market imperfection that multiply with ambition. They cannot aggregate the capital needed for frontier technologies. They cannot protect their innovations from free-riding by competitors who would appropriate knowledge without bearing development costs. They cannot maintain the long-horizon investment commitments that transformative innovation requires.

The missing link is the corporation. What remained implicit in Schumpeter's analysis is the institutional vehicle that converts entrepreneurial initiative into sustained macroeconomic development. This paper argues that the missing link is the corporate economy itself — the organizational system through which entrepreneurial initiative is scaled and sustained. By identifying the joint-stock corporation as the institutional carrier of Economic Differentiation, GTED transforms Schumpeter's creative destruction into a concrete, empirically testable mechanism.

The joint-stock firm — hierarchical, governed by internalized performance standards, capable of protecting knowledge assets from free-riding and committing capital across decades — scales Schumpeter's entrepreneurial impulse into sustained national development. Recent Schumpeter-inspired growth models (Aghion and Howitt, 1992; Mokyr, 2016) elaborate innovation's role in long-run growth but leave the organizational question unanswered. GTED answers it: innovation is sustained by the corporate organization operating under Economic Differentiation, which systematically helps and motivates those who help themselves.

2.2 China as a Socialist Corporate Economy

China's official self-description as a *"socialist market economy"* may direct attention to the wrong institutional variable. The word *market* implies that dispersed price signals coordinating anonymous individuals explain China's growth. But China's development was never primarily organized through anonymous markets. From Deng's household responsibility system — which

linked household income directly to household output — to the township and village enterprise system — which subjected local collective firms to bankruptcy and survival pressure — to the export-platform model — which created corporate champions evaluated on global competitiveness — the organizing logic was always performance-based differentiation at the organizational level**,** not price coordination among atomistic agents.

GTED proposes a more accurate characterization: China is a socialist corporate economy**.** What distinguishes it is not ownership form (public versus private) but institutional principle: economic outcomes are systematically linked to economic performance at the corporate level. State-owned enterprises that fail to meet performance targets face restructuring, replacement of management, or closure. Regions that create favorable corporate environments attract investment; those that do not stagnate. Firms that succeed in global competition receive expanded resources; those that do not are left behind. This is not primarily market coordination but corporate-level Economic Differentiation, organized and maintained by a developmental state.

Korea under Park Chung-Hee (1961–1979) offers the closest parallel (Jwa, 2017b, 2026a). Park's industrial policy was not simply protectionist — it was explicitly conditional. Chaebols that met export targets received preferential credit, land, and infrastructure; those that did not meet had support withdrawn. The self-help spirit was not a rhetorical flourish but an institutional principle: the state would help those who helped themselves and withdraw support from those who did not.

Park's principle of Economic Differentiation was not confined to the corporate sector but operated across multiple institutional levels. Most visibly at the community level, development programs that linked rewards to measurable performance proved highly effective. Korea's Saemaul Undong (New Village Movement) in the 1970s treated villages as semi-corporate rural organizations led by Saemaul leaders. Villages received initial support, but subsequent assistance was allocated selectively according to demonstrated progress in infrastructure improvement, income generation, and collective participation. This performance-based competition induced strong incentives for self-help, emulation, and innovation, rapidly transforming lagging rural communities within a few years. (Jwa, 2024a) The experience illustrates how ED-based institutional design can mobilize effort and generate shared progress even outside the corporate economy. As argued in the next

section, the market is intrinsically an ED institution, though it alone is insufficient for development due to market imperfections.

Deng Xiaoping's reform strategy extended this logic to the national level. His doctrine of the "rich-led nation" institutionalized performance-based differentiation across individuals, regions, and enterprises. Deng, who closely observed Korea's development experience, implemented the same core principle — performance-conditional support — at continental scale.

What unites Schumpeter's authoritarian corporate economy, Korea's developmental state, and China's socialist corporate economy is a single institutional feature: the deliberate maintenance of a strong positive link between economic performance and economic reward at the organizational level. GTED calls this Economic Differentiation, and its theory predicts that wherever this link is maintained, development follows. Wherever this link is eroded — whether by democratic redistributive politics, welfare-state egalitarianism, or by egalitarian redistribution that severs the performance-reward linkage regardless of the system's political form — development stagnates.

2.3 The Chinese Roots of Economic Differentiation: Ancient Wisdom, Modern Theory

GTED's deepest philosophical roots lie in Chinese classical thought. Sixteen characters — eight from Zuo Qiuming and eight from Confucius — express its foundational principle with a precision no subsequent formulation has surpassed. Tang Yijie (汤一介) identified 和而不同 (hé ér bù tóng) as the philosophical foundation for civilizational coexistence (Tang, 2015); Zhang Dainian (张岐年) as a "basic spirit of Chinese culture" (Zhang and Cheng, 2015); and Lou Yulie (楼宇烈) as the root of Chinese civilization's "fundamental spirit" (Lou, 2016). Xi Jinping declared it "the law governing the occurrence and development of all things" (Xi, 2024).

Two classical formulations define the framework. Zuo Qiuming 左丘明, Guoyu 《国语·郑语》, c. 8th century BCE: 「和实生物，同则不继」 (Hé shí shēng wù, tóng zé bù jì) — harmonized differences generate new life; enforced uniformity exhausts vitality. Confucius 孔子, Analects 《论语·子路》, c. 5th century BCE, 13.23: 「君子 和而不同，小人 同而不和」 (Jūnzǐ hé ér bù tóng, xiǎorén tóng ér bù hé) — the noble person achieves harmony while preserving principled difference; the petty person pursues surface uniformity without genuine harmony.

2.3.1 Zuo Qiuming: The Ontology of Difference

Zuo Qiuming identifies difference — not sameness — as the generative source of life and productivity. Soil, water, and sunlight produce a living plant precisely because they differ; pour water into water and nothing grows. This anticipates modern complexity theory: complex order emerges from nonlinear interactions among heterogeneous elements, not from homogeneous accumulation (Colander, 2000; Corning, 1998, 2002; Beinhocker, 2006; Jwa, 2017a). Economic development arises from the dynamic interaction of differentiated components — firms, workers, entrepreneurs, institutions — organized and rewarded according to performance.

2.3.2 Confucius: Governance Through Harmonized Difference

Confucius elevates the ontological principle into a governance maxim. The junzi-xiaoren distinction is not merely ethical but institutional: effective governance coordinates differentiated agents while preserving their differences; ineffective governance homogenizes them and destroys the productive potential that difference creates. Tang Yijie (2015) identifies this as the philosophical source of "harmony in diversity" — the recognition that diverse elements, when coordinated rather than homogenized, generate vitality that uniformity cannot produce.

2.3.3 Han Feizi: Incentive Enforcement

Legalist thought, most systematically articulated by Han Feizi (韩非子), completes the philosophical architecture by specifying the institutional rule necessary to sustain productive differentiation. The doctrine of 信賞必罰 (xìn shǎng bì fá, unfailing reward for merit and unavoidable punishment for failure) translates harmonized difference into a concrete incentive enforcement system. Once differences in performance are recognized and coordinated, institutions must preserve them through systematic rewards and sanctions; without such differentiation, incentives collapse and coordinated productivity becomes impossible.

2.3.4 GTED and the Corporate Carrier: Modern Institutional Translation

GTED does not claim that classical Chinese thinkers developed a modern economic theory. Rather, the classical formulations identify a philosophical principle — the generative role of harmonized difference — that closely parallels the institutional mechanism GTED formalizes. Economic Differentiation (ED) is the modern institutional embodiment of 和实生物: the systematic

conditioning of rewards on performance, sustaining the productive differentiation on which development depends. Economic Egalitarianism (EE) corresponds to 同则不继: institutional arrangements that suppress difference by imposing uniform outcomes, eroding incentives and exhausting productive vitality.

What makes GTED more than a restatement of ancient wisdom is its identification of the specific institutional carrier through which ED operates in modern capitalism: the joint-stock corporation. By combining heterogeneous skills, capital, and entrepreneurial initiatives within a governance structure that rewards differential performance and penalizes failure, the corporation operationalizes 君子 和而不同 and 信賞必罰 simultaneously. A developmental state that nurtures this corporate sector embodies the same logic: coordinating differentiated economic actors by merit, sustaining the productive differentiation on which national development depends (Tang, 2015, pp. 261–264).2014

2.3.5 Integrative Summary: From Classical Thought to GTED

Table 1 synthesizes the conceptual sequence from Chinese classical philosophy to GTED, including the corporate carrier and its empirical realization. The table establishes a single analytical logic: ED is not a Western economic invention but the modern institutional expression of a principle articulated in Chinese classical thought twenty-five centuries ago — that harmonizing differences generates vitality while uniformity exhausts it.

Layer	**Thinker / Tradition**	**Core Concept**	**Philosophical Meaning**	**Institutional Principle**	**GTED Mapping**	**Economic Outcome**
1. Ontology	Zuo Qiuming (左丘明)	和实生物 / 同则不继	Difference generates life; uniformity exhausts vitality	Productive systems require heterogeneity + interaction	ED foundation (difference as source of growth)	Emergence, innovation, productivity
2. Governance	Confucius (孔子)	和而不同 / 同而不和	Harmony requires preserving difference; uniformity destroys real coordination	Effective systems coordinate differentiated agents	ED coordination mechanism	Efficient organization, cooperation

3. Enforcement	Han Feizi (韩非子)	信賞必罰	Reward merit, punish failure without exception	Incentives must preserve performance differences	ED incentive structure	Sustained effort, discipline, selection
4. Modern Theory	GTED	ED vs EE	Differentiation vs egalitarian suppression	Institutions determine whether performance → reward linkage holds	ED = growth / EE = stagnation	Development vs stagnation
5. Institutional Carrier	Modern capitalism (Corporation)	Harmonized difference at scale	Hierarchical organization with performance-based allocation	Corporate ED system	Scalable growth, innovation	Capitalism redefined as a corporate economy
6. Empirical Realization	Western industrial revolution / Korea (Corporate economy & Saemaul Undong)	Corporate-economy	Economic Differentiation as development strategy	State, market and corporate firm enforce performance-based selection	ED in practice	Rapid development, inequality → shared growth (Jwa, 2017a)
7. Counter-example	Mature democracy and market economy	Social democracy, revised capitalism and welfare state	Economic Egalitarianism	Performance-reward link significantly lessened	EE in practice	Growth stagnation and distribution worsened (Jwa, 2024b)

2.4 Relation to Existing Literature on China's Development

The existing literature on China's growth and distribution has generated a rich empirical record but has not converged on a unified theoretical account of the institutional mechanism behind it. This paper engages with five main strands of this literature and clarifies where GTED departs from each.

2.4.1 The state capitalism debate.

The dominant framework characterizes China as a form of state capitalism in which party-state institutions direct resource allocation through industrial policy, SOE promotion, and financial control (Naughton and Tsai, 2015; Naughton, 2021). Naughton argues that the reform-era system emphasized decentralized decision-making and robust growth incentives, but that regulatory actions beginning in 2021 abruptly constrained the private sector and redefined policy objectives, shifting toward a system where economic decisions are heavily politicized. This characterization is largely consistent with GTED's institutional diagnosis: Naughton's "grand steerage" is consistent with what GTED identifies as a shift toward EE institutional configuration — the systematic prioritization of redistributive outcomes over performance-based rewards. Where GTED departs is in insisting that the explanatory variable is not state capacity per se, but the ED–EE institutional configuration that governs how state power is deployed — whether to reward performance or to redistribute outcomes. The state capitalism literature describes what the Chinese state does; GTED explains why some configurations of state action generate development and others do not.

2.4.2 The private sector and market reform debate.

Lardy (2014, 2019) argues that China's rapid growth was driven by market-oriented reforms and the rise of private firms, and that Xi Jinping's reversal — by championing state enterprises and propping up underperforming companies — is the central threat to China's future growth prospects. This is closely aligned with GTED's theoretical prediction: an institutional shift from ED toward EE erodes the performance-reward linkage that sustains corporate dynamism, weakening both growth and distributional outcomes. However, Lardy's market-versus-state framing misses GTED's core point: it is not the market-versus-state balance that determines development, but whether either markets or state policy embody ED — the systematic conditioning of support on performance.

2.4.3 The inequality literature.

The empirical literature on Chinese inequality documents a sharp rise through the mid-2000s, followed by a partial reversal. Recent work confirms that income inequality in China increased profoundly through approximately 2008, and that while income inequality has since stabilized, wealth and consumption inequality continue to rise (Wan et al., 2024; Zhang, 2021). The standard

explanation attributes the initial widening to urban-rural gaps, coastal-interior disparities, and returns to education under globalization — broadly consistent with Kuznets-type transition dynamics (Kuznets, 1955). GTED offers a different and complementary mechanism: as the corporate economy matures under sustained ED, the CA → Gini relationship is predicted to reverse sign — from inequality-widening to inequality-compressing — reflecting endogenous shared prosperity generated by the corporate sector itself, a mechanism that operates independently of the structural factors identified in the existing inequality literature.

2.4.4 The Acemoglu-Robinson framework.

The most prominent institutional account classifies China's authoritarian regime as extractive, predicting eventual stagnation (Acemoglu and Robinson, 2012). This prediction sits uneasily with four decades of sustained development. GTED resolves this tension by introducing a dimension the Acemoglu-Robinson framework lacks: the distinction between ED and EE institutional configurations. China under Deng and Hu was an ED-governed authoritarian system — what GTED calls market authoritarianism (Jwa, 2024b), or more concretely in China's case, a socialist corporate economy —not an extractive regime in the Acemoglu-Robinson sense. GTED further predicts that an ED-to-EE institutional shift under the name of inclusive generates a distinctive pattern: growth and distributional outcomes structurally weaken as redistribution expands — precisely the kind of institutional risk that the Acemoglu-Robinson framework, by classifying all inclusive regimes as development-friendly, cannot anticipate.

2.4.5 Lin's New Structural Economics and the Middle-Income Trap.

The most systematic attempt to theorize China's development within a neoclassical framework is Lin's New Structural Economics (NSE), which argues that developing countries should follow their comparative advantage as determined by factor endowments, with government facilitating rather than defying market signals (Lin, 2011). NSE extends this logic to the middle-income trap (MIT): countries fail to escape the MIT because they cannot upgrade from low to high value-added industries, and the solution is government-facilitated industrial upgrading along the lines of evolving comparative advantage (Lin and Treichel, 2012; Lin, 2017). These are valuable contributions — NSE captures something real about the early reform phase, and the MIT framing

correctly identifies industrial upgrading as the central challenge. But NSE cannot explain the dynamic that GTED identifies. First, NSE's endowment-based framework is silent on the institutional mechanism — the performance-reward linkage — that determines whether factor endowments are actually mobilized into productive corporate organization. As Rodrik (2011) observes, NSE oscillates ambiguously between following and defying comparative advantage, and cannot resolve how governments should address coordination failures that require precisely such defiance. Second, NSE offers no account of why the same endowment structure generates very different outcomes across institutional regimes — Korea versus the Philippines, China under Deng versus under Mao — because it abstracts from the ED/EE institutional configuration that GTED places at the center. Third, and most directly relevant to GTED's contribution, the MIT itself is not primarily a failure of industrial upgrading but a failure of ED institutions: countries fall into the MIT when egalitarian pressures erode the performance-reward linkage before the corporate economy has matured sufficiently to sustain endogenous shared prosperity — a reframing that NSE, lacking the ED/EE distinction, cannot generate.

3. GTED: Institutional Functionality, Corporate Economy, and Empirical Framework

3.1 The Trinitarian Framework: Market, Corporation, and Government

GTED organizes the institutional carriers of Economic Differentiation into a trinitarian framework consisting of the market, the corporation, and the government. Each element exercises ED in a distinct domain; sustained development requires all three to operate in concert. Understanding how they interact — and how the corporation occupies the central coordinating role that mainstream economics has assigned to the market — is the key to reading China’s development trajectory correctly.

The market exercises ED through competitive selection: firms that produce what consumers value at the lowest cost expand; those that do not contract and exit. This is Alchian’s (1950) insight made institutional — market competition is nature’s version of performance-based discrimination, selecting for efficiency and against waste. But markets are insufficient on their own. Innovators who invest in new knowledge are vulnerable to free-riding by competitors who can copy

discoveries without bearing development costs. Without a mechanism to internalize this knowledge, market competition will systematically under-invest in the activities that drive long-run growth.

The corporation addresses precisely this limitation. Alchian and Demsetz (1972) showed that team production under hierarchical monitoring solves incentive problems that market contracts cannot resolve. Chandler (1977) demonstrated that the managerial revolution — the rise of the large hierarchical corporation — was the organizational innovation that made the industrial age possible. Simon (1991) reinforced this insight by arguing that modern economies are better understood as organizational economies than as market economies: the corporation, not the price mechanism, is the primary coordinator of productive activity. In this sense, the corporation is the grand aggregator of the economy: whatever is useful for productive purposes — capital, technology, and knowledge — acquires economic value only insofar as it is absorbed into corporate assets (CA) within the corporate governance structure. What remains outside the corporation remains economically unrealized. From this understanding of the corporate reality, GTED argues that the most important function of the corporation is not administrative efficiency but developmental: it internalizes knowledge, protects it from free-riding, enforces performance standards on workers and managers, and enables the long-horizon investments that frontier innovation requires. The corporate production function is not $y = f(K, L, A)$ — the neoclassical black box that treats all firms as identical input-output devices. It is the organized, hierarchical deployment of capital, labor, and knowledge within a structure that rewards performance and penalizes failure.

Government completes the trinity not by replacing the market or the corporation, but by providing the institutional infrastructure within which both can exercise ED effectively. The developmental state — Korea under Park Chung-hee, China under Deng Xiaoping — did not substitute for corporate performance; it amplified it. By protecting successful firms from free-riding competitors, directing infrastructure toward high-performing regions, and maintaining a clear and credible signal that performance would be rewarded and failure penalized, government extended and reinforced the ED incentive structure throughout the economy. When government shifts from this ED-amplifying role to an EE-distributing role — protecting inefficient firms, subsidizing underperformers, redistributing from successful to unsuccessful corporations — it cancels what markets and corporations have built, generating the polarized stagnation that afflicts mature

democracies today (Jwa, 2024b; Jwa and Lee, 2025).

3.2 ED/EE as Institutional Functionality, Not Institutional Formality

The ED/EE distinction that GTED places at the center of development analysis is not a distinction between formal institutional types — between capitalism and socialism, democracy and authoritarianism, or inclusive and extractive regimes. It is a distinction between functional institutional configurations: whether the operative allocation principle rewards performance or redistributes outcomes independently of performance.

This functional emphasis is GTED's decisive departure from New Institutional Economics. NIE correctly identifies formal institutions — property rights, rule of law, and democratic governance as necessary conditions for development (North, 1990; Acemoglu and Robinson, 2012). But formal institutions are necessary without being sufficient. What activates them and transforms them into productive development engines is ED: the performance-reward linkage that determines whether formally constituted markets, corporations, and governments actually generate incentives for productive effort. ED is the enabling institution — the functional activation parameter that NIE's static account leaves unspecified (Jwa, 2017a).

The practical implication is direct: the same formal institutional label can house radically different functional configurations and therefore radically different development outcomes. China carried the formal label of socialist market economy throughout the reform era. Yet its functional configuration under Deng was unmistakably ED-oriented — performance-based evaluation, regional competition, and differential rewards — while the Soviet Union, carrying a similar formal label, housed an EE-dominant configuration and stagnated accordingly. What distinguished them was not the formal regime type but the functional institutional principle governing allocation.

Applied to China's three-regime trajectory, this functional lens clarifies what the empirical analysis measures. Each regime shift — from Deng to Hu to Xi — represents not a change in formal institutional label but a change in the functional balance between ED and EE: how consistently the performance-reward linkage is maintained across markets, corporations, and government policy.

3.3 Corporate Assets: The Missing Variable in Development Theory

The central empirical implication of the trinitarian framework is that conventional macroeconomic variables — capital stock, labor, total factor productivity — are insufficient to explain development outcomes because they ignore the organizational form through which those inputs are deployed. GTED addresses this gap by introducing corporate assets (CA) as the key variable: the accumulated stock of physical capital, knowledge, and organizational capacity that has been brought within the corporate governance structure and made subject to performance-based management.

The distinction matters because identical physical capital yields vastly different output depending on its organizational embedding. A factory managed by a performance-evaluated corporation operating under ED institutions generates far more output per unit of capital than the same factory managed by a state bureau insulated from competitive discipline. This is precisely what the Soviet Union demonstrated in collapse, and what China's SOE reform program demonstrated in its success: it was not the capital stock that changed, but the organizational and incentive structure within which capital was deployed. The neoclassical production function, treating all firms as identical black boxes, cannot capture this difference. Corporate assets, measured as the total asset stock of the listed corporate sector, can.

The substitution of corporate assets (CA) for the conventional capital aggregate (K) also addresses a foundational measurement problem in capital theory. Robinson (1953) demonstrated that aggregate capital K cannot be measured independently of the rate of profit r, since valuing heterogeneous capital goods requires knowing r in advance — a circularity that undermined the neoclassical production function at its core. The Cambridge Capital Controversy that followed (Sraffa, 1960; Harcourt, 1969) left this circularity unresolved for over half a century. Corporate assets, measured directly from corporate balance sheet data prior to and independently of any return calculation, dissolve this circularity: CA is observable before r is known, not after. The corporate assets variable thus serves a dual purpose: it captures the organizational depth of the economy as argued above, and it resolves the measurement problem that the Cambridge controversies identified but could not solve within the conventional capital framework (Jwa, 2026c).

It is important to emphasize that corporate assets are not intended as a simple proxy for aggregate capital stock. What distinguishes the corporate asset measure from conventional capital variables is

its institutional embedding. Corporate assets represent physical capital, accumulated knowledge, and organizational capability that have been brought under hierarchical governance structures in which performance evaluation, monitoring, and long-horizon coordination become possible. The variable therefore captures the depth of the corporate economy itself rather than the quantity of physical capital alone.

Formally, GTED replaces the neoclassical production function $Y = F(K, L, A)$ with a corporate-asset specification in which per capita income is jointly determined by the depth of corporate asset accumulation — which plays a natural proxy for ED — and the institutional balance between Economic Differentiation and Economic Egalitarianism:

Y/L (per capita income) $= \beta \cdot (CA/L) + \boldsymbol{\gamma} \cdot EE +$ controls [Growth Equation]

The parameter β is the comprehensive marginal productivity of the entire corporate system — integrating physical assets, embedded knowledge, organizational routines, and the incentive structure that activates them. The central theoretical prediction distinguishing GTED from standard capital theory is that β should increase as the corporate sector matures.

Formally, this follows from the GTED dynamic model in which the institutional parameter θ (higher θ under ED; lower θ under EE) drives a self-reinforcing feedback loop linking technology A ($dA/dt = \theta \cdot y - A$), per capita corporate assets ca ($= k \cdot A^{\delta}$, $\delta < 1$), and per capita output y ($= ca^{\alpha}$). Because the system-wide feedback loop $A \rightarrow ca \rightarrow y \rightarrow A$ generates macro increasing returns, the elasticity of A with respect to θ exceeds unity ($\partial \ln A^* / \partial \ln \theta > 1$, where A^* denotes steady-state technology). The corresponding output elasticity of corporate assets also exceeds the traditional production elasticity with respect to capital K, consistent with institutional feedback amplifying output beyond what micro-level diminishing returns would predict. The prediction of monotonically rising β across successive institutional regimes is accordingly the central empirical proposition of this paper, unless an EE regime interrupts corporate incentives to grow. Full model specification and theoretical derivations are presented in Jwa (2026b, manuscript available upon request).

The parameter γ captures the marginal effect of EE intensity on per capita income, measured by the giniratio (market Gini/disposable income Gini). GTED predicts $\gamma < 0$ under redistribution that is performance-blind and uniformly applied — the classic EE case in which the performance-reward linkage is eroded and corporate investment incentives are undermined. However, γ may weaken

toward zero or even turn positive when redistribution is structured along ED principles: conditioning transfers on performance from recipients — whether individuals or SMEs — and linking social support to productive outcomes. When redistribution is designed this way, social policy becomes development policy: the EE instrument is redirected to reinforce, rather than suppress, the incentive architecture of the corporate economy. The sign of γ is therefore not predetermined but depends on the institutional character of the redistribution regime itself.

3.4 How Corporations Generate Shared Growth: From Differentiation to Endogenous Equality

Conventional development economics treats growth and distribution as competing objectives: policies that accelerate growth tend to widen inequality, while policies that compress inequality tend to slow growth. This trade-off has been the intellectual foundation of welfare-state redistribution — since markets generate inequality as a byproduct of growth, governments must step in to redistribute. GTED challenges this trade-off at its root. The trade-off exists not because growth inherently produces inequality, but because mainstream theory lacks a mechanism through which growth generates broad-based prosperity endogenously. The corporation supplies exactly that mechanism.

In the early stages of corporate development, growth and differentiation do go together. A nascent corporate sector succeeds by distinguishing winners from losers: successful firms expand dramatically, unsuccessful ones exit. The income distribution widens as corporate profits concentrate among a small number of high-performing firms and their owners. This initial widening is not a pathology—it is the necessary first manifestation of ED at work. Deng's famous instruction to "let some get rich first" was not a concession to inequality; rather, it recognized that early-stage corporate development must generate visible differentiation before it can produce broad-based prosperity, especially in socialist China, which had long been characterized by downward equalization and a stagnant agrarian economy. However, this is not mechanical: even at the early stage, ED-consistent state subsidies — conditioned on performance and designed to motivate rather than equalize — can generate shared growth from the outset, as Korea's Saemaul Undong demonstrated.

As the corporate sector matures, however, the distributional dynamic reverses. Corporate

employment becomes the primary source of income for a large and growing share of the population. Corporate productivity growth translates directly into broad wage increases across the workforce. The firms that survive competitive selection are increasingly sophisticated, driving up economy-wide wages. And the organizational routines of the corporate sector — internal labor markets, performance-linked compensation, career ladders — distribute productivity gains more widely than arm's-length market transactions can. The result is that corporate asset growth begins to compress market income inequality, not widen it. Redistribution is not needed; endogenous shared growth follows from corporate maturity itself.

This dynamic generates the distribution equation alongside the growth equation:

$$Gini = a + b \cdot (CA/L) + c \cdot EE + controls \text{ [Distribution Equation]}$$

The coefficient b captures corporate asset growth's net effect on market income inequality. GTED predicts $b > 0$ in the early differentiation phase and $b < 0$ as the corporate sector matures. The coefficient c captures EE intensity (proxied by the market-to-disposable Gini ratio). GTED predicts $c > 0$: greater redistribution is associated with worse, not better, long-run market income distribution — because traditional EE-based redistribution suppresses ED incentives, harms motivation to work, and undermines the corporate growth that would otherwise reduce inequality endogenously. This is how welfare-state egalitarianism generates polarized stagnation. Jwa (2024b) and Jwa and Lee (2015) confirm both predictions across 66 countries.

3.5 Four Testable Propositions for Economic Growth and Distribution

From the growth and distribution equations, GTED derives four universal propositions applicable to any economy operating under ED or EE institutions (Jwa, 2017a, 2024b). These propositions are then tested empirically across China's three institutional regimes.

Proposition 1 (ED → Growth): Corporate asset accumulation is the primary driver of per capita income growth. As corporate depth increases — embedding knowledge, physical capital, and organizational capability within hierarchical governance structures — productive capacity expands and system-wide complementarities intensify. GTED predicts a positive CA elasticity on income that strengthens as the corporate sector matures.

Proposition 2 (ED → Distribution): Corporate asset growth initially widens market income inequality during the differentiation phase, as ED concentrates rewards among high performers. However, as the corporate sector deepens and broad-based employment and wage growth become the dominant distributional force, CA growth compresses inequality endogenously — delivering shared prosperity without redistribution. GTED thus predicts a sign reversal in the CA coefficient on inequality as corporate maturity advances (Jwa 2017a, pp. 135–141).

Proposition 3 (EE → Growth): EE intensity negatively affects per capita income growth by eroding the performance-reward linkage that the overall development dynamism and corporate ED depends on. This suppressive effect is predicted to be strongest when the corporate foundation is fragile, and to diminish as accumulated corporate depth provides absorptive capacity against moderate EE pressure.

Proposition 4 (EE → Distribution): EE intervention paradoxically worsens market income inequality in the long run. By suppressing individual and corporate growth incentives, redistribution eliminates the primary mechanism through which development generates shared prosperity endogenously.

These four propositions, taken together, constitute the GTED framework for reading China's three-regime history and define the empirical tests that follow.

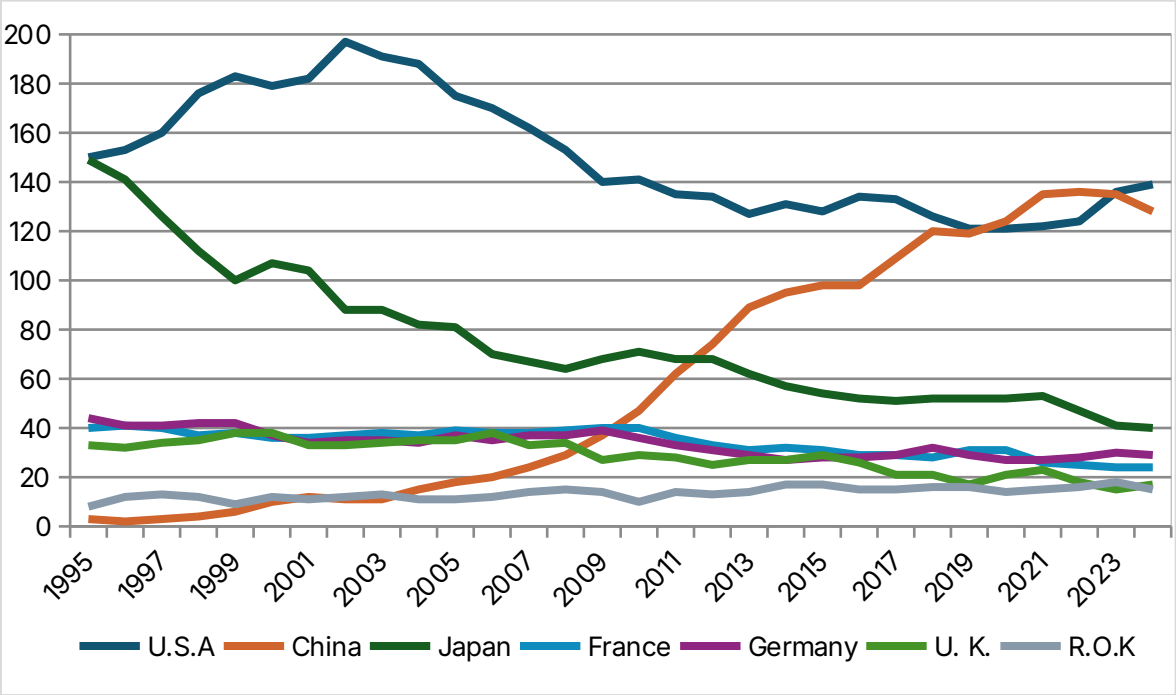
4. From Theory to Evidence: Institutional Characterization of Chinese Development as Three Political Economy Regimes

4.1. China's Rise as Global Corporate Superpower

China's four-decade transformation from one of the world's poorest large economies to a near-peer of the United States in corporate scale does not unfold as a single continuous process. GTED implies that modern economic development requires sustained industrial policy focused on corporate growth through strategic learning from first-mover know-how. China applied this strategy more consistently than any other late-developing economy. Beginning with Deng Xiaoping's reforms, it systematically absorbed Japanese, Korean, and later U.S. corporate practices, surpassing USD 10,000 per capita income within decades.

The outcome of this corporate rivalry will likely determine twenty-first-century global economic and political leadership. Evidence appears in the shifting Fortune Global 500 (Figure 1). China caught up with Korea, Japan, and Europe within a decade (2000–2010). By 2023, China listed 135 firms versus the United States' 136, confirming head-to-head competition despite a remaining technological lag. China's ascent proceeds through three institutionally distinct political economy regimes, each defined by a different configuration of Economic Differentiation (ED) and Economic Egalitarianism (EE), producing distinct growth and distributional outcomes.

Figure 1: China's Fortune Global 500 Trends 1995–2023, showing shifting corporate dominance.



Source: Fortune Global 500. Color reproduction requested for print and online.

4.2. Chinese Development in Three Political Economy Regimes

4.2.1. The Deng Legacy Era (1989–2002): Building the Corporate Foundation

The Deng legacy era (1989–2002), spanning the mature phase of Deng Xiaoping's reforms and the Jiang Zemin years, featured the most aggressive construction of corporate ED in modern history. Key measures included the household responsibility system, SOE performance evaluation,

regional competition, and ideological legitimation of inequality as development progress. The guiding principle—"letting some get rich first" and "black cat, white cat" pragmatism—institutionalized Economic Differentiation as national philosophy.

The 1989 Tiananmen incident marked the institutional starting point by clarifying reform direction. Deng's 1992 Southern Tour accelerated market-oriented development and large-scale SOE corporatization: over 3,000 large SOEs were converted by 2000. Performance-reward linkages—the core of ED—were established at scale. Coastal special economic zones demonstrated that differentiated rewards could drive sustained national growth.

The corporate economy remained fragile amid lingering socialist egalitarian norms and redistributive pressures. In GTED terms, Phase 1 was the contested formation stage of ED: institutionally costly in its egalitarian dimension, yet already creating the corporate assets for future development.

4.2.2. The Hu Era (2003–2012): ED Dominance and the Emergence of Co-prosperity

By Hu Jintao's leadership, China had accumulated two decades of corporate capital. WTO accession in 2001 deepened global integration and scaled Chinese corporations. The corporate foundation was dominant.

Hu's "harmonious society" (和谐社会) agenda expanded welfare: the New Rural Cooperative Medical Scheme covered 830 million rural residents by 2012, alongside rural income support and healthcare. Under GTED's third proposition, such egalitarian measures would normally suppress growth. Phase 2 revealed the domain condition: egalitarianism harms growth only when the corporate foundation is weak. Once ED is firmly established and the corporate mechanism absorbs moderate redistribution, egalitarian policies no longer impose the same growth cost. The Hu era thus saw the first systematic emergence of co-prosperity—growth and distributional improvement advancing together—driven by a maturing corporate economy under sustained ED.

4.2.3. The Xi Era (2013–2022): Corporate Peak and the Common Prosperity Paradox

The Xi Jinping era marks both the peak of China's corporate economy and its most serious institutional test. The corporate sector achieved unprecedented global scale and technological sophistication (e.g., rapid 5G rollout from 2019 and high-speed rail dominance). Its contribution to growth and distributional compression reached its historical maximum (as shown by Figure 1 above and Figure 2 below)—fully realizing GTED's prediction that a mature corporate economy generates endogenous shared prosperity.

Yet this period introduced a paradox. Xi's Common Prosperity (共同富裕) campaign—through tighter regulation of platform firms (Ant Group IPO suspension, intensified regulatory scrutiny including multiple large-scale penalties totaling tens of billions of RMB), adjustments in education/entertainment sectors, income distribution guidance, and renewed emphasis on state enterprises—risks shifting the ED–EE balance if these interventions become permanent structural policy. These measures could erode the performance-reward linkages that drove four decades of development. China under Xi is GTED's most consequential test case: whether the institutional gains of sustained ED can survive strong egalitarian redistribution at the height of corporate maturity.

5. Empirical Model Specification and Data

5.1 Three Institutional Regimes

A central insight of GTED is that the ED–EE balance is not a smooth continuous variable but a discrete institutional feature that shifts with leadership transitions. China's post-reform history offers three such distinct institutional regimes:

- Phase 1: Deng legacy (1989–2002)
- Phase 2: Hu Jintao (2003–2012)
- Phase 3: Xi Jinping (2013–2022)

These regimes are not arbitrary periodization. They reflect genuine structural breaks in China's institutional history—breaks that the empirical analysis will confirm and quantify. The GTED framework provides the lens through which each regime's institutional logic becomes intelligible.

5.2 The Three-Regime Regression Model

We estimate the following three-regime regression model in log-log form with regime interaction terms, extending the theoretical model of growth and distribution presented in Section 3.

$$ln(Y_t) = \alpha + \beta_1 \cdot L1.ln(CA_t) + \beta_2 \cdot L1.ln(giniratio_t) + \beta_3 \cdot L1.ln(openness_t) + \beta_4 \cdot D2003 + \beta_5 \cdot D2013 + \beta_6 \cdot D2003 \times L1.ln(CA_t) + \beta_7 \cdot D2013 \times L1.ln(CA_t) + \beta_8 \cdot D2003 \cdot L1.ln(giniratio_t) + \beta_9 \cdot D2013 \times L1.ln(giniratio_t) + \beta_{10} \cdot D2003 \times L1.ln(openness_t) + \beta_{11} \cdot D2013 \times L1.ln(openness_t) + \varepsilon_t$$

where Y_t is either real per capita GDP(pcRGDP_USD) or the market-income Gini coefficient, all continuous regressors enter with one lag to mitigate simultaneity, β_1, β_2, and β_3 capture the base phase effects of CA, giniratio and trade openness, respectively, and D2003 and D2013 are regime dummies set to one from 2003 and 2013 respectively. β_4 and β_5 are the constant terms' structural-shifts for D2003 and D2013 according to the model of difference in differences. Their interactions with lagged corporate assets, giniratio, and openness allow the ED, EE, and openness slopes (elasticities) to shift across regimes. β_6~β_{11} capture the phase specific marginal effects of the concerned variables, respectively. Phase-specific total effects are recovered by linear combination: the total CA effect in Phase 1 is simply β_1; in Phase 2 it is $\beta_1 + \beta_6$; in Phase 3 it is $\beta_1 + \beta_6 + \beta_7$. The total EE effect in Phase 1 is simply β_2; in Phase 2 it is $\beta_2 + \beta_8$; in Phase 3 it is $\beta_2 + \beta_8 + \beta_9$. The total openness effect in Phase 1 is simply β_3; in Phase 2 it is $\beta_3 + \beta_{10}$; in Phase 3 it is $\beta_3 + \beta_{10} + \beta_{11}$.

Potential econometric concerns arising from this specification — serial correlation, non-stationarity, and endogeneity bias — are addressed in Section 5.4 after the empirical results are presented.

5.3 Variables and Sources

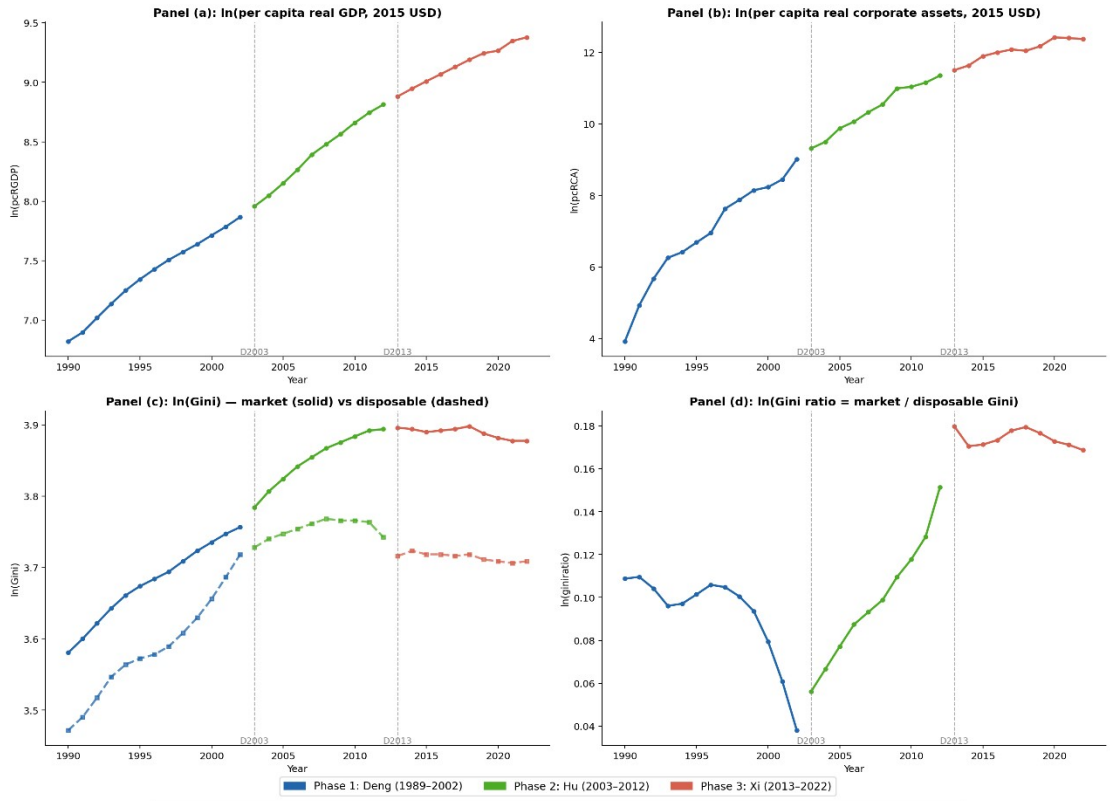
Our primary measure of ED intensity is per capita real corporate assets (pcRCA_USD), constructed from Compustat Global data on total assets of listed Chinese firms in constant 2015 US dollars, divided by population. This variable captures what the standard macroeconomic production function obscures: the organizational depth of the economy, the accumulated stock of knowledge and physical capital that has been brought within the corporate governance structure and made subject to performance-based management. The Compustat Global series covers listed Chinese firms, and the alternatives available— National Bureau of Statistics (NBS) fixed-asset capital stock and NBS enterprise-asset aggregates — are not viable substitutes for our sample

period. NBS gross fixed capital formation (GFCF) data not only mismatches the nature of corporate assets but also becomes available only from the early 1990s; NBS enterprise-asset aggregates by industry are available only from 1999 (aggregate) or 2004 (by sector). Neither series adequately covers the Deng era (1989–2002) that is central to our analysis. Compustat Global is therefore the only source providing a consistent annual corporate-sector balance sheet series spanning the full 1989–2022 reform era.

Our measure of EE intensity is the giniratio: the market-income Gini coefficient divided by the disposable-income Gini coefficient, sourced from the Standardized World Income Inequality Database (SWIID; Solt, 2024). A higher giniratio means that market incomes are more unequal relative to disposable incomes — that is, redistribution is compressing a wider market income spread into a narrower disposable income distribution. This is precisely the variable that captures the institutional gap between what the market allocates and what the state redistributes, making it a direct empirical proxy for EE intensity.

We add trade openness — the ratio of exports plus imports to GDP, sourced from the World Bank WDI — as a control variable, entering with one lag and interacted with regime dummies. Openness captures the degree to which China's economy is integrated into global markets and thus exposed to competitive pressures that may independently drive growth and distributional outcomes. Controlling for openness ensures that the estimated CA and EE elasticities reflect institutional mechanisms rather than the mechanical effects of trade integration.

Figure 2. Data Overview: China's Key Variables across Three Institutional Regimes (1988–2022).



Note: Phase 1 = Deng legacy (1989–2002); Phase 2 = Hu Jintao (2003–2012); Phase 3 = Xi Jinping (2013–2022). Sources: pcRGDP_USD — World Bank WDI (constant 2015 USD); pcRCA_USD — Compustat Global (constant 2015 USD); gini_mkt, gini_disp, giniratio — SWIID (Solt, 2024).

Figure 2 provides a data overview of all key variables across China's three institutional eras. Panels (a) and (b) show the sustained log-linear trajectories of per capita real GDP ($872 → $12,484) and corporate assets ($12 → $248,838) — both rising steeply across all three phases, confirming the corporate deepening that GTED identifies as the engine of development. Panel (c) shows the market- and disposable-income Gini series: the market Gini rises through Phase 2 before stabilizing and beginning to decline in Phase 3, while the disposable Gini follows a more compressed trajectory. Panel (d) displays the giniratio in both level and log form, showing a steady decline in Phase 1 and rapid increase through Phase 2 that moderates in Phase 3 — the EE intensity pattern that the regression will decompose phase by phase.

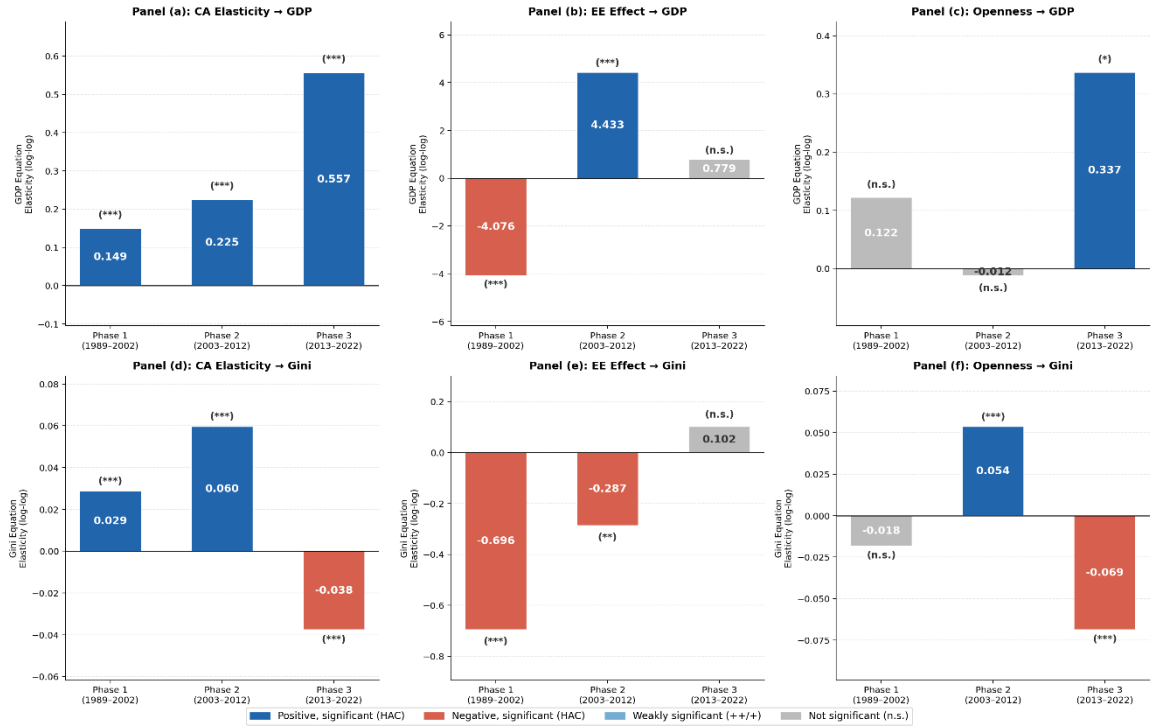
6. Empirical Results: Cumulative Total Effects

6. 1 Approach to Interpret the Empirical Results

This paper's primary interest lies in the phase-specific total (cumulative) effects**,** recovered through linear combinations (lincom) of the phase-specific incremental marginal effects estimated by regular econometric regression reported in Table A1 (GDP equation) and A2 (Market Gini equation) in Appendix I. These total effect measures provide a better overall picture of how corporate assets (CA), redistribution (EE), and openness shaped growth and inequality across China's three phases.

Figure 3 illustrates phase-specific cumulative total effect elasticities for the equations and independent variables. This information will be the basis for understanding Chinese growth and distribution effects of CA, Giniratio, and openness across the three phases.

Figure 3. Phase-Specific total Elasticities: GTED Predictions Confirmed



Notes: Six panels show CA, EE, and Openness elasticities for the GDP (top row) and Gini (bottom row) equations across the three political eras. Elasticities recovered by linear combination (lincom) from the log-log three-regime OLS model with trade openness control reported in Appendix I; bars report HAC delta-method estimates. Phase 1 = 1989–2002 (Deng); Phase 2 = 2003–2012 (Hu); Phase 3 = 2013–2022

*(Xi). Y-axis scales differ across panels. *** p<0.01 ** p<0.05 * p<0.10 n.s. = not significant. Color reproduction requested for print and online.*

6.2 Growth Effects: Rising Corporate Dependence

According to Figure 3 and Table 2, the GDP results establish a clear and systematic pattern: corporate assets function as the central driver of growth across all phases**.** The cumulative elasticity of GDP with respect to corporate assets rises monotonically from 0.149*** to 0.225*** to 0.557***, consistent with the GTED prediction that the Chinese economy becomes increasingly dependent on corporate capacity over time. By contrast, the EE variable follows a non-monotonic trajectory. It strongly suppresses growth in Phase 1, turns positive in Phase 2, and becomes statistically insignificant in Phase 3. This pattern suggests that the growth impact of redistribution —whether suppressive or contributive—has dissipated entirely in Phase 3, in sharp contrast to the monotonically rising and stable growth contribution of corporate assets across all three regimes.

Openness, which had been ineffective for growth in Phases 1 and 2, turns positive in Phase 3 as accumulated corporate strength deepens global integration.

Table 2. Phase-Specific Total Effects on ln(pcRGDP): CA, EE and Openness

Phase	Period	GDP CA Elast.	HC1	HAC	GDP EE Effect	HAC	HC1	GDP Open. Elast.	HC1	HAC	GTED Assessment
Phase 1	1989–2002	0.1494	***	***	-4.0764	***	***	+0.1218	n.s.	n.s.	ED drives growth; EE severely suppresses
Phase 2	2003–2012	0.2251	**	***	+4.4333	*	***	-0.012	n.s.	n.s.	ED strengthens; EE absorbed (ED dominance)
Phase 3	2013–2022	0.5566	***	***	+0.7787	n.s.	n.s.	+0.3372	++	*	★ ED at peak; EE statistically negligible; Openness positive for GDP

*Notes: Phase 1 CA=β_1, EE=β_2; Phase 2=$\beta_1+\beta_6$, $\beta_2+\beta_8$; Phase 3=$\beta_1+\beta_6+\beta_7$, $\beta_2+\beta_8+\beta_9$. HAC Newey-West delta-method SE. These parameters are derived from Table A1 in Appendix I. *** p<0.01, ** p<0.05, * p<0.10, $^{++}$ p<0.15, n.s. = not significant.*

6.3 Distributional Effects: From Differentiation to Endogenous Compression

Figure 3 and Table 3 illustrate the dramatic reversal in inequality. The Gini equation reveals the paper's central distributional result. Corporate asset growth initially widens inequality (+0.029*** in Phase 1; + 0.060*** in phase 2), but once the corporate sector has accumulated sufficiently, the effect reverses sign and compresses it, with the Phase 3 effect turning significantly negative (−0.038***). This transition marks the emergence of endogenous shared prosperity generated by the corporate sector itself.

The EE effect weakens progressively and becomes insignificant in Phase 3 (+0.1016, n.s.) while openness shifts from inequality-widening to inequality-reducing (-0.069 ***). These patterns again indicate that distributional outcomes are increasingly shaped by corporate dynamics rather than redistributive intervention.

Table 3. Phase-Specific Total Effects on ln(gini_mkt): CA, EE and Openness

Phase	Period	Gini CA Elast.	HC1	HAC	Gini EE Elast.	HC1	HAC	Gini Open Elast.	HC1	HAC	GTED Assessment
Phase 1	1989–2002	+0.0287	***	***	-0.6958	***	***	-0.0182	n.s.	n.s.	CA widens Gini; EE compresses
Phase 2	2003–2012	+0.0596	***	***	-0.2873	*	**	+0.0537	***	***	CA still widens; EE compresses; Openness widens Gini
Phase 3	2013–2022	-0.0376	***	***	+0.1016	n.s.	n.s.	-0.0688	**	***	★ CA strongly compresses Gini; EE dissipates; Open compresses Gini

*Notes: These parameters are derived from Table A2 in Appendix I. Phase 3 CA→Gini (−0.038***) is the paper's central distributional finding: China's corporate sector now compresses market income inequality endogenously. HAC Newey-West delta-method SE. *** p<0.01, ** p<0.05, * p<0.10, n.s. = not significant.*

6.4 Intercept Shifts and Institutional Risks

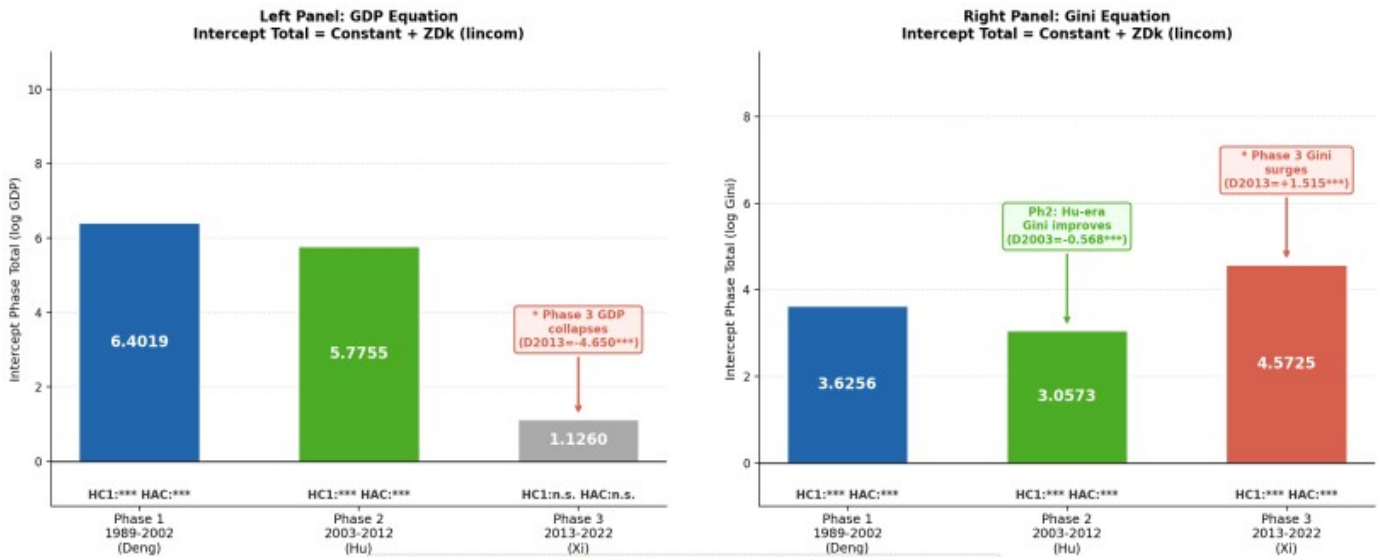
Turning to the intercept shift totals, Table 4 and Figure 4 highlight the paradox of Phase 3. While slope effects validate the full build-up of corporate asset dominance—growth elasticity at its peak and inequality compressed—the intercept shifts reveal fragility. The Phase 3 GDP intercept level stands near zero (+1.126, n.s.), while the Phase 3 Gini intercept level surged to +4.573***. This divergence — with the GDP intercept shift statistically insignificant — is consistent with institutional drift under egalitarian policies beginning to pressure the performance–reward linkage.

Table 4. Phase-Specific Intercept levels: lincom Results

Phase	Period	GDP Intercept	HC1	HAC	Gini Intercept	HC1	HAC	GTED Assessment
Phase 1	1989–2002	+6.4019	***	***	+3.6256	***	***	Phase 1 GDP and Gini intercept levels solid
Phase 2	2003–2012	+5.7755	***	***	+3.0573	***	***	Phase 2 GDP intercept level sustained; Phase 2 Gini intercept level improves
Phase 3	2013–2022	+1.126	n.s.	n.s.	+4.5725	***	***	★ Phase 3 GDP intercept level near zero (n.s.); Phase 3 Gini intercept level surges

*Notes: Intercept phase totals = Constant + ΣD_k by lincom (HAC delta-method SE). GDP: Phase 3 intercept level = +1.126 (n.s.); intercept shift D2013 = −4.650***. Gini: Phase 3 intercept level = +4.573***; intercept shift D2013 = +1.515***. These parameters are derived from Table A1 and A2 in Appendix I. Figure 4 visualizes these intercept dynamics. *** p<0.01, n.s. = not significant.*

Figure 4. Phase Specific Intercept Levels (1989–2022)



Note: Left panel: GDP equation intercept phase totals (Constant + ΣD_k). Right panel: Gini equation intercept phase totals. Grey = not significant at the 10% level (n.s.). Color reproduction requested for print and online.

6.5 Key Insight

Cumulative total effects reveal the dual dynamics of slope vitality and intercept fragility. Corporate assets and openness ultimately delivered both growth and equality, but redistribution lost relevance. The numbers thus provide both validation of GTED and a warning about policy risks: sustaining the success of *China's endogenous shared growth* requires preserving the institutional logic of Economic Differentiation against egalitarian drift.

From the GTED corporate economy perspective, the Chinese experience is consistent with GTED's prediction that the corporate economy is the key driver of growth and distribution. Redistribution, by contrast, loses statistical relevance by Phase 3—regardless of direction. Even openness, commonly regarded as a source of polarization, turns into a contributing factor for both growth and equality in Phase 3. While GTED implies that a sufficiently strong corporate economy can help overcome domestic EE pressure and fully harness market openness without harming distribution, the precise mechanisms through which these dynamics operate remain a subject for further investigation.

6.6 Some econometric concerns addressed

The empirical analysis rests on N=34 observations and a cointegrating regression framework. This section demonstrates that, within these constraints, the results are internally coherent, robust to alternative estimators and regime-break specifications, and free from the principal econometric pathologies that could undermine their validity. Section 6.6.1 provides an overall diagnostic assessment; Section 6.6.2 addresses the small-sample constraint in detail.

6.6.1 Overall Diagnostic Assessment

Table 5 documents five principal econometric concerns, the evidence bearing on each, and the mitigation applied. In all five cases the concern is either fully resolved by design or confirmed not to materially affect the results

Table 5. Overall Diagnostic Assessment

Concern	Evidence	Mitigation	Status	Appendix
Serial correlation	DW=0.806 (GDP), 1.289 (Gini); HAC SE ≤ HC1 SE in 10 of 11 coefficients	HAC (Newey-West, 3 lags) SE used throughout; HC1 reported for comparison	Addressed ✓	—
Endogeneity / simultaneity	CA, openness, EE may be jointly determined with GDP and Gini	All continuous regressors enter with one lag (L1), eliminating contemporaneous endogeneity	Addressed ✓	—
Non-stationarity	ADF and PP tests: all core variables are I(1)	Johansen trace tests confirm cointegration at 1% in both systems; OLS estimates a cointegrating regression, not a spurious one	Addressed ✓	II, III
Spurious regression	I(1) variables raise spurious regression risk without cointegration	Cointegration confirmed (Appendix III); FMOLS yields virtually identical results (Appendix IV), ruling out estimator-dependent artefact	Addressed ✓	III, IV
Regime break validity	2003 and 2013 break years are researcher-imposed	Chow tests confirm 2003 break (F=27.665***, GDP; F=7.155***, Gini) and 2013 break (F=3.133**, GDP; sequential F=33.933***, Gini)	Confirmed ✓	V

*Notes: Appendix II = Unit Root Tests; Appendix III = Johansen Cointegration; Appendix IV = FMOLS Robustness; Appendix V = Chow Structural Break Tests. *** $p<0.01$, ** $p<0.05$.*

6.6.2 Small-sample reliability.

China's institutional reform era spans 1989–2022, yielding N = 34 annual observations — a ceiling imposed by the historical record, especially the availability of the key explanatory variable, corporate assets data, not by analytical choice. The paper does not claim that this sample meets the standards of large-sample inference. What is claimed is more modest: that N = 34 observations covering one complete three-regime institutional cycle, analyzed through a cointegrating regression framework confirmed by Johansen and validated by FMOLS, is sufficient to evaluate

the GTED propositions against China's historical record. The coherence of sign patterns, magnitudes, and phase-sequencing across both equations and all three phases — consistent with GTED predictions and inconsistent with spurious correlation — supports this claim. The empirical analysis should be read as structured illustrative evidence for the GTED propositions, inviting future testing as richer data become available.

Three further diagnostics reported in Appendix VI (Tables A3–A5) assess whether the N = 34 constraint generates unreliable estimates. First, leave-one-out cross validation (LOOCV) yields RMSE ratios of 1.54 (GDP) and 1.42 (Gini) — well below the threshold of 3 indicating severe overfitting. Second, AIC/BIC model selection comparing the full model (K=12) against a parsimonious alternative (K=8) yields mixed signals: AIC favors the full model for Gini and is tied for GDP, while BIC favors the parsimonious model for both. This does not invalidate the full model: in a cointegrated system requiring full regime-slope identification, the full specification is theoretically motivated. Third, LOO deletion tests the stability of the Phase 3 CA coefficients — the paper's most critical results including the CA monotonic deepening and Gini sign reversal — by re-estimating the model after dropping each Phase 3 observation in turn. Coefficients of variation of 0.052 (GDP) and 0.110 (Gini) confirm their robustness across all Phase 3 LOO deletions.

7. China's Three Phases and the General Logic of Corporate-Led Development

More broadly, the Chinese experience should not be interpreted as a uniquely Chinese institutional trajectory. Instead, it provides empirical evidence for a general developmental logic: when corporate organization governed by Economic Differentiation expands sufficiently, it becomes capable of generating both sustained economic growth and distributional improvement endogenously.

7.1 Phase 1 (1989–2002): The Corporate Economy Built From Nothing

The Phase 1 intercept total establishes the growth and distribution foundation from which all subsequent phase dynamics operate. In GTED terms, this intercept level (+6.402***) reflects the cumulative institutional stock of the Deng era: the corporate economy that emerged from near-zero in 1978 had by 1989 produced a structural growth equilibrium of log GDP = 6.402 per capita

(approximately $600 in 2015 USD), holding slope dynamics constant. For the Gini, the Phase 1 intercept (+3.626***) represents the distributional intercept level of an economy in early-stage ED: inequality is structurally embedded as the necessary condition for corporate differentiation to function. The fact that both intercepts are highly significant is consistent with the Deng era having established a genuine institutional equilibrium — not merely a transitional state — with identifiable structural levels of both growth and inequality.

What do these numbers mean in institutional terms? They mean that in the Deng era, China's corporate sector was fragile. The performance-reward linkage was new, contested, and not yet deeply embedded in expectations and behavior. In this environment, any government intervention that weakened the linkage — that signaled to workers, managers, and investors that performance differences would be treated uniformly — carried enormous costs. Deng understood this instinctively. His explicit rejection of egalitarianism as a developmental principle, his insistence that those who got rich first were contributing to China's development by demonstrating what was possible, was not political rhetoric. It was the necessary institutional complement to the corporate development he was building.

Phase 1 results on slope changes confirm the Deng era's institutional revolution in Economic Differentiation. The corporate asset contribution to growth (0.149***), while modest relative to later eras, is highly significant — the first quantitative evidence that the performance-reward linkage Deng established was real and consequential. The positive CA → Gini in Phase 1 (+0.029***) is entirely consistent with this reading. Reform-era differentiation — the gap between successful coastal enterprises and still-lagging inland state firms, between household contractors with good crops and those without, between the early winners of regional competition and the early losers — widened the market income distribution. This was not a failure of development; it was its first manifestation.

While EE exerted a compressive force on the rising Gini (−0.696***), it came at a significant cost to growth (−4.076***). The negative EE → Gini result adds an important nuance. While corporate differentiation widened market inequality through the CA channel, EE-linked redistribution simultaneously compressed it: Deng's performance-linked rural transfers, household responsibility system rewards, and conditional village-level incentives functioned as ED-consistent redistribution — channeling returns toward productive participants rather than

equalizing outcomes. The net Phase 1 distributional outcome thus reflects two forces operating in opposite directions: CA widening (+0.029***) and EE compressing (−0.696***), with the EE compression effect in elasticity terms about 24 times larger in magnitude. This is consistent with GTED's prediction that early-stage corporate development is compatible with distributional improvement — provided that the redistribution system preserves performance incentives rather than suppressing them. Openness had no significant growth and distributional effect in Phase 1, consistent with China's still-limited global integration before WTO accession.

7.2 Phase 2 (2003–2012): The Hu Era Paradox, and Why It Is Not a Paradox

The Phase 2 results present an apparent puzzle. The total EE effect on GDP in the Hu era is +4.433 —positive, not negative. This marks a clear shift from Phase 1 (−4.076**), alongside a significant positive effect of openness on Gini. If Economic Egalitarianism suppresses growth, how can higher redistribution intensity be associated with higher GDP during the Hu Jintao years?

The answer lies in what GTED calls ED dominance. By 2003, China had built two decades of corporate capital. Its Fortune Global 500 count had grown from zero to fifteen firms. The total stock of corporate assets in the economy was an order of magnitude larger than at the start of the reform era. With this corporate foundation in place, the performance-reward linkage was deep enough, and the corporate sector's absorptive capacity large enough, that moderate egalitarian expansion — rural healthcare, income transfers, minimum wage increases — could be absorbed without suppressing the corporate growth engine. The corporate sector was growing so fast that it could raise incomes and create employment faster than redistribution could erode incentives.

This is not a refutation of GTED's third proposition. It is a specification of its domain condition. Egalitarianism suppresses growth when the corporate foundation is insufficient to absorb it — as in Phase 1 China, or in any early-stage developing economy where the performance-reward linkage is fragile. When the corporate foundation is strong, moderate EE expansion is absorbed and the system maintains its growth momentum. What matters is not the level of redistribution in isolation but the ratio of ED institutional strength to EE pressure. China in the Hu era had enough ED capital in reserve to accommodate a moderate increase in EE without crossing into stagnation. The Phase 2 CA elasticity of 0.225 — higher than Phase 1 — suggests that corporate assets remained the growth driver throughout.

The Phase 2 intercept results sharpen this reading. The GDP intercept marginal shift (D2003: −0.626, n.s.) suggests that the Hu era did not structurally break the growth intercept level — the institutional foundation established under Deng remained intact, as evidenced by the still-significant cumulative Phase 2 intercept (+5.776***). The Gini intercept marginal shift (D2003: −0.568***) is the more consequential result: it is significantly negative, suggesting that the Hu era produced a structural downward shift in the distributional intercept level (from +3.626*** in phase 1 to +3.057***). This is the regime-level statistical signature of Hu's workfare: not a dramatic redistribution but a genuine structural compression of the inequality equilibrium, operating at the intercept level independently of CA and EE slope dynamics. In GTED terms, this is precisely what ED-consistent welfare looks like: the performance-linked transfers of the Hu era reduced the structural inequality intercept level without penalizing the growth intercept level.

Otherwise, under ED dominance, Phase 2 maintains the same core pattern as Phase 1: positive CA elasticity on both GDP and Gini, and negative EE elasticity on Gini. The notable departure is openness: as global integration deepens, its inequality-widening effect (+0.054**) becomes statistically significant — an unavoidable pressure that the corporate sector has yet to fully absorb at this stage.

7.3 Phase 3 (2013–2022): Corporate Peak and an Open Institutional Question

Phase 3 results provide GTED's most compelling illustrative support and raises its most important open question. The corporate slope reached a level of dominance unprecedented in our research program: its growth contribution (+0.557***) is more than three times its Phase 1 level (+0.149***), and it now compresses rather than widens inequality — consistent with delivering both growth and shared prosperity through the same mechanism, corporate economy.

Trade integration (openness) in Phase 3 clearly exerts a positive growth effect (+0.337*), supported by a much stronger corporate sector than in Phases 1 and 2, while compressing Gini (−0.069***), consistent with China's reorientation toward domestic consumption and technology-led growth. This reinforces both the growth and inequality-compression effects operating through the CA channel.

As far as the slope elasticities are concerned, the Xi era appears to attain the best possible

development combination of growth and distribution that GTED implies. Whether this can be sustained, however, depends critically on whether the ED institutional foundation that has produced these outcomes can be preserved against the evolving institutional environment.

The Phase 3 results, however, already carry a warning that deserves careful attention. While the egalitarianism variable (EE) has become statistically insignificant for both growth and distribution, this is not because Common Prosperity policies are without economic consequence, but because any effects on the institutional stock may still be accumulating gradually. The corporate sector's ED intensity remains high because it draws on forty years of accumulated institutional capital. However, changes in the regulatory and institutional environment accumulate gradually in investment expectations and business behavior. The results through 2022 capture the peak of accumulated corporate capital; the institutional consequences of a sustained EE shift, should Common Prosperity deepen into structural policy, would likely appear in subsequent data.

The Phase 3 intercept tells the critical story. The GDP intercept level weakens to +1.126 (n.s.) due to a substantial downward shift from Phase 2 (D2013 = −4.650***) that leaves the level statistically indistinguishable from zero. Corporate slope remains powerful (0.557***). For Gini, the Phase 3 intercept level rises to +4.573*** (shift D2013 = +1.515***), partially offsetting the Hu-era improvement. Corporate compression (−0.038***) has so far outpaced this intercept-level pressure; whether it will continue to do so remains an open empirical question.

8. Policy Implications: What China's Corporate Economy Holds Up to the World

8.1 China's Crossroads: The Korea Warning

China stands today at the institutional crossroads Korea passed through in 1987. Korea's post-democratization drift toward EE—anti-corporate regulation, performance-decoupled subsidies, labor rigidity—produced simultaneous growth deceleration and rising market inequality (Jwa, 2024b). China's Phase 3 intercept warning (Phase 3 GDP intercept level near zero (n.s.), Phase 3 Gini intercept level rising) shares some structural resemblance with this early-stage Korea pattern, though causal mechanisms may differ. China is not Korea: its corporate stock is far deeper, its

institutional memory of EE catastrophe more vivid. But the Phase 3 growth and Gini results show that shared prosperity is already materializing through corporate growth, not redistribution—and that this outcome requires preserving ED-based functionality.

8.2 The Mirror: What China's Phase 3 Shows the United States

There is a remarkable symmetry in the evidence between two countries. China in Phase 3 has achieved what GTED identifies as the hallmark of a well-established corporate economy: Gini elasticity with respect to CA turns negative (−0.038***) while GDP elasticity with respect to CA reaches 0.557***. American corporate development once delivered precisely this combination and has progressively lost it through egalitarian drift (Jwa, 2024b). Trade tariffs that operate at the firm level address a different institutional channel than the corporate ED foundations that GTED identifies as central to sustained development. China's Phase 3 is the counterfactual the United States needs to study: not as a geopolitical threat but as an institutional mirror showing what performance-based corporate governance produces when sustained.

As documented in Section 4.1, China's exceptional corporate strength—evidenced by its Fortune Global 500 presence—has become the primary carrier of national economic power. The scale, asset depth, and global competitiveness of Chinese corporations now underpin this position, and their future trajectory will depend critically on preserving the Economic Differentiation (ED) institutions that govern the corporate sector. This may be the key lesson for the United States to relearn from China—beyond its current trade strategy—if it seeks to restore its position as a genuine great power.

8.3 The Universal Logic: Implications for World Development Strategy

China's trajectory is strong empirical evidence for a general developmental logic: The corporate economy governed by ED—markets selecting performance, corporations internalizing and compounding it, governments sustaining the institutional conditions for both—generates both growth and distributional improvement once the corporate sector has reached sufficient scale and depth. For developing economies, the priority is to build this corporate foundation before egalitarian pressures emerge. For advanced economies already in low-growth traps, revival

requires restoring performance-linked governance and reducing barriers to corporate scaling. China's forty-year experiment confirms the universal mechanism: wherever an ED-governed corporate economy is built and maintained, development follows.

9. Conclusion

We began with a puzzle: how did China transform itself from one of the world's poorest large economies to a near-peer of the United States in corporate scale in four decades, and what does that transformation tell us about how development works? The answer this paper offers is straightforward but requires a significant reorientation of how we think about development institutions. China succeeded not because it built a market economy but because it built a corporate economy—an institutional system in which the principle of Economic Differentiation, the systematic rewarding of performance and penalizing of failure, was applied consistently and comprehensively at the corporate level over a sustained period.

The empirical results support this interpretation with a consistency that is difficult to dismiss. The significance of China's experience therefore extends beyond the interpretation of a single country's development path. It provides large-scale empirical support for the GTED proposition that the corporate economy—rather than the market alone—constitutes the primary institutional engine of modern economic development. This proposition, moreover, cannot be dismissed as culturally specific to China. GTED translates Zuo Qiuming's classical insight into a general economic model — one grounded in a universal ontological principle that harmonizing differences generates life while uniformity exhausts vitality — and thereby establishes Economic Differentiation and Economic Egalitarianism as categories applicable to any economy, anywhere.

The empirical results establish four interlocking findings. First, corporate asset elasticity on growth rises monotonically across the Deng, Hu, and Xi eras, confirming GTED's first proposition. Second, egalitarianism is severely punished in Phase 1, absorbed in Phase 2, and rendered negligible in Phase 3. Third, corporate growth reverses from widening to strongly compressing market inequality by Phase 3, delivering endogenous shared prosperity. Fourth, the Xi era shows slope-level corporate vitality coexisting with intercept-level pressure — a pattern that, GTED implies, could be evidence of rising EE dominance, but remains an open institutional question whose resolution will depend on how the ED-EE balance evolves. China's forty-year experiment

thus confirms the universal mechanism at the heart of GTED: wherever an ED-governed corporate economy is built and sustained, development follows.

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Appendix

Appendix I. Chinese Growth and Distribution Regression Results

Table A1. GDP Equation: Dependent Variable ln(pcRGDP), 1989–2022

Variable	Coef.	HC1 SE	Sig.	HAC SE	Sig.	SE Δ %	Interpretation
Constant	6.4019	0.9469	***	0.5569	***	−41%	α: Constant
L1.ln(pcRCA)	0.1494	0.0190	***	0.0206	***	+8%	β_1: Base CA elasticity (Ph1)
L1.ln(giniratio)	−4.0764	1.3091	***	1.1565	***	−12%	β_2: Base EE effect (Ph1)
L1.ln(openness)	+0.1218	0.2758	n.s.	0.1890	n.s.	−31%	β_3: Base openness (Ph1)
D2003	−0.6264	1.3198	n.s.	0.6821	n.s.	−48%	β_4: Hu era intercept shift
D2013	−4.6495	1.7950	***	1.2948	***	−28%	β_5: Xi era intercept shift
D2003×L1.ln(CA)	0.0757	0.0944	n.s.	0.0526	++	−44%	β_6: CA slope change Ph2
D2013×L1.ln(CA)	0.3314	0.1128	***	0.0713	***	−37%	β_7: CA slope change Ph3
D2003×L1.ln(EE)	8.5096	2.6926	***	1.6489	***	−39%	β_8: EE slope change Ph2
D2013×L1.ln(EE)	−3.6545	2.6442	+	1.9271	*	−27%	β_9: EE slope change Ph3
D2003×L1.ln(Open)	−0.1338	0.2862	n.s.	0.1946	n.s.	−32%	β_{10}: Openness change Ph2
D2013×L1.ln(Open)	+0.3492	0.2273	++	0.1769	**	−22%	β_{11}: Openness change Ph3
N=34, Adj.R^2=0.9952, DW=0.806							

*Notes: OLS with HC1 and HAC Newey-West (3 lags) SE (Newey and West, 1987). All continuous regressors lagged one period. D2003=1 from 2003; D2013=1 from 2013. SE Δ% = change from HC1 to HAC. *** p<0.01, ** p<0.05, * p<0.10, ++ p<0.15, + p<0.20, n.s.= not significant (HAC). DW=0.806: HAC is appropriate inference criterion.*

Table A2. Gini Equation: Dependent Variable ln(gini_mkt), 1989–2022

Variable	Coef.	HC1 SE	Sig.	HAC SE	Sig.	SE Δ %	Interpretation
Constant	3.6256	0.1038	***	0.0455	***	−56%	α: Constant

Variable	Coef.	HC1 SE	Sig.	HAC SE	Sig.	SE Δ %	Interpretation
L1.ln(pcRCA)	0.0287	0.0018	***	0.0018	***	+0%	β_1: Base CA→Gini (Ph1)
L1.ln(giniratio)	−0.6958	0.1852	***	0.1342	***	−28%	β_2: Base EE→Gini (Ph1)
L1.ln(openness)	−0.0182	0.0275	n.s.	0.0140	+	−49%	β_3: Base openness (Ph1)
D2003	−0.5684	0.1205	***	0.0673	***	−44%	β_4: Hu era intercept shift
D2013	+1.5153	0.1871	***	0.1687	***	−10%	β_5: Xi era intercept shift
D2003×L1.ln(CA)	+0.0309	0.0058	***	0.0048	***	−17%	β_6: CA slope change Ph2
D2013×L1.ln(CA)	−0.0972	0.0092	***	0.0072	***	−22%	β_7: CA slope change Ph3
D2003×L1.ln(EE)	+0.4085	0.2376	*	0.1750	**	−26%	β_8: EE slope change Ph2
D2013×L1.ln(EE)	+0.3889	0.1880	**	0.1288	***	−31%	β_9: EE slope change Ph3
D2003×L1.ln(Open)	+0.0719	0.0280	**	0.0145	***	−48%	β_{10}: Openness Ph2
D2013×L1.ln(Open)	−0.1224	0.0265	***	0.0248	***	−6%	β_{11}: Openness Ph3
N=34, Adj.R^2=0.9964, DW=1.289							

*Notes: Same as Table A1, except DW=1.289: satisfactory. D2013×ln(CA)=−0.0972*** is consistent with endogenous inequality compression in Phase 3. *** p<0.01, ** p<0.05, * p<0.10, n.s. = not significant.*

Appendix II. Unit Root Tests

Variable	ADF (level)	ADF (Δ)	PP (level)	PP (Δ)	Order
ln(pcRGDP)	−0.470	−1.890	0.649	−3.542***	I(1)
ln(pcRCA)	0.381	−0.226	−4.464***	−4.764***	I(1)
ln(giniratio)	−4.385***	−3.237**	−1.622	−3.212**	I(0) †
ln(gini_mkt)	0.027	−1.738	0.981	−1.646	I(1)

Variable	ADF (level)	ADF (Δ)	PP (level)	PP (Δ)	Order
ln(openness)	−1.266	−3.967***	−1.204	−3.932***	I(1)

*Notes: ADF = Augmented Dickey-Fuller (constant+trend at level; constant at first difference). PP = Phillips-Perron. Lag length selected by AIC. I(1) variables are non-stationary in levels but stationary in first differences. † ln(giniratio) tests as borderline I(0) under ADF; Johansen cointegration (Appendix III) confirms a long-run relationship with the I(1) variables, supporting inclusion in the cointegrating regression. *** p<0.01, ** p<0.05, * p<0.10.*

Appendix III. Johansen Cointegration Tests

Equation	H_0	Trace statistic	CV 5%	CV 1%	Decision
GDP	r ≤ 0	78.280	47.855	54.681	Reject H_0***
	r ≤ 1	35.682	29.796	35.463	Reject H_0***
Gini	r ≤ 0	70.803	47.855	54.681	Reject H_0***
	r ≤ 1	41.869	29.796	35.463	Reject H_0***

*Notes: Johansen trace statistic tests H_0: at most r cointegrating vectors. VAR lag = 1 (AIC). Intercept included. Both the GDP and Gini systems reject H_0: r≤0 at the 1% level, confirming at least one cointegrating relationship in each. Spurious regression is ruled out. *** p<0.01.*

Appendix IV. FMOLS Robustness Check: Confirming OLS Results

Equation	Phase	OLS (main)	FMOLS (confirmation)
GDP	Phase 1 (1989–2002)	0.149***	0.164***
	Phase 2 (2003–2012)	0.225**	0.226*
	Phase 3 (2013–2022)	0.557***	0.555**
Gini	Phase 1 (1989–2002)	+0.029***	+0.030***
	Phase 2 (2003–2012)	+0.060***	+0.059**
	Phase 3 (2013–2022)	−0.038***	−0.038***

*Notes: OLS results (HC1 SE) are from Appendix I, Tables A1 and A2. FMOLS (Phillips and Hansen, 1990) applies non-parametric long-run covariance correction (Bartlett kernel, N=34) to address endogeneity and serial correlation in the cointegrated system confirmed in Appendix III. FMOLS estimates are virtually identical to OLS across all phases and both equations, confirming that the main results are not an artifact of the estimation method. The two key findings — monotonically rising CA elasticity for GDP and CA→Gini sign reversal in Phase 3 — are fully robust to the choice of estimator. *** p<0.01, ** p<0.05, * p<0.10.*

Appendix V. Chow Structural Break Tests

The Chow test examines whether regression coefficients are stable across subsamples split at the hypothesized break year. Rejection of H_0 confirms a genuine structural break, validating the periodization as data-supported rather than arbitrary.

Equation	Break year	F-statistic	p-value	n_1	n_2	Decision
GDP	2003 (Hu era onset)	27.665	0.000	14	20	Reject H_0***
	2013 (Xi era onset)	3.133	0.031	24	10	Reject H_0**
Gini	2003 (Hu era onset)	7.155	0.001	14	20	Reject H_0***
	2013 (Xi era onset)†	1.153	0.354	24	10	Cannot reject H_0

*Notes: H_0 = parameter stability (no structural break). Regressors: L1.ln(CA/L), L1.ln(giniratio), L1.ln(openness), constant. † Gini 2013 break confirmed by sequential test within 2003–2022 subsample (F=33.933, p<0.001***). GDP 2013 sequential break confirmed at 10% level (F=2.552, p=0.094*). *** p<0.01, ** p<0.05, * p<0.10.*

Appendix VI. Small-Sample Diagnostic Tests

Table A3. LOOCV and AIC/BIC Model Selection Diagnostics

Diagnostic	Equation	Metric	Full model	Threshold/Alt	Verdict
LOOCV	GDP	RMSE ratio	1.54	>3 = severe	Mild
LOOCV	Gini	RMSE ratio	1.42	>1.5 = mild	OK
AIC	GDP	ΔAIC (Full−Pars)	−0.1	<−2 = Full better	Tied
AIC	Gini	ΔAIC (Full−Pars)	−3.6	<−2 = Full better	Full better
BIC	GDP	ΔBIC (Full−Pars)	+6.1	>+2 = Pars better	Pars better
BIC	Gini	ΔBIC (Full−Pars)	+2.5	>+2 = Pars better	Pars better

Notes: LOOCV ratio = LOO RMSE / in-sample RMSE. Ratio > 3 indicates severe overfitting. ΔAIC/BIC = Full model minus Parsimonious model; negative values favor the full model. Parsimonious model retains K=8 parameters: D2003, D2013, L1.ln(CA), D2013×L1.ln(CA), L1.ln(EE), D2003×L1.ln(EE), L1.ln(open), constant.

Table A4. Phase 3 CA Coefficient Stability (Leave-One-Out)

Equation	CA Ph3 (full)	LOO min	LOO max	CV (std/|coef|)	Verdict
GDP	0.557	0.513	0.609	0.052	Stable
Gini	−0.038	−0.049	−0.034	0.110	Stable

Notes: LOO stability test drops each Phase 3 observation (2013–2022) in turn and re-estimates the full model. CV =

coefficient of variation = std(LOO estimates) / |full-model estimate|. CV < 0.30 indicates acceptable stability. The Phase 3 CA coefficient and Gini sign reversal are robust across all LOO deletions.

Table A5. Full vs Parsimonious Model — Core Results Comparison

Variable	GDP Full	GDP Pars	Sig.	Gini Full	Gini Pars
CA Phase 1	0.149***	0.156***		0.029***	0.027***
CA Phase 3 (total)	0.557***	0.407***		−0.038***	−0.017***
EE Phase 1	−4.076***	−4.147***		−0.696***	−0.574***
D2013 intercept	−4.650***	−3.030***		+1.515***	+0.473***
Adj.R^2 (K)	0.9952 (12)	0.9949 (8)		0.9964 (12)	0.9957 (8)

*Notes: Full model K=12; Parsimonious K=8 (drops Phase 2 CA and Phase 3 EE/openness interactions). Core GTED results — monotonically rising CA elasticity, Phase 3 Gini sign reversal, negative D2013 intercept — are preserved in both specifications. *** p<0.01.*