

From Equilibrium to Phase: The "Five Phase Framework" as a Practical Tool for the Contemporary Global Economy

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Abstract: The post-2020 global economy is characterised by nonlinear transitions, systemic shocks, technological acceleration, and overlapping structural transformations. Traditional equilibrium-centred and linear economic models remain analytically valuable but face limitations in capturing feedback-driven and phase-dependent dynamics. This paper proposes an interdisciplinary framework that reconstructs the classical Chinese Five Phases (五行, Pinyin: Wu Xing) as a formal heuristic model of systemic transformation rather than a metaphysical doctrine. Interpreted in analytically neutral terms, the Five Phases describe recurrent functional states of complex systems: emergence, amplification, stabilisation, rationalisation, and renewal. Positioned as a second-order phase model, the framework complements contemporary complexity economics, nonlinear dynamics, and innovation theory by offering a structured way to interpret interacting cycles and policy-dependent transitions. The model is applied to artificial intelligence development, global supply chain restructuring, and macroeconomic volatility. The objective is not to replace quantitative economics, but to expand its conceptual architecture through a phase-sensitive diagnostic perspective capable of organising systemic transformation in an AI-driven global economy.

Keywords: Five Phases (五行, Wu Xing), Complexity Economics, Economic Cycles, Innovation Management, Phase-Sensitive Framework, Artificial Intelligence, Systemic Transformation, Nonlinear Dynamics

1 Introduction

In recent decades, VUCA (volatile, uncertain, complex, ambiguous) has become a well-known acronym in the economics literature [1]. The COVID-19 pandemic, geopolitical fragmentation, accelerated digitalisation, and rapid technological innovation have amplified these characteristics, creating overlapping transitions rather than isolated cycles. Some scholars argue that this environment is better captured by the BANI framework - brittle, anxious, non-linear, and

incomprehensible - which highlights systemic fragility, increased social stress, and structural interdependence that conventional models struggle to address [2].

Navigating such complexity requires adaptive, cross-disciplinary thinking. Leadership and decision-making in these contexts demand the integration of systemic reasoning, relational awareness, and the ability to interpret interactions across multiple levels [3, 4]. At the individual level, resilience and effective stress management are critical, as cognitive and emotional performance increasingly determine the ability to act decisively in turbulent environments [5].

Economic cycles, technological diffusion, and policy interventions no longer unfold in predictable, linear patterns; instead, they evolve through interconnected, phase-sensitive processes. Classical Chinese philosophy offers a relational, process-oriented perspective that complements these contemporary insights [6].

This paper proposes a novel approach by adapting the classical Chinese Five Phases (五行, Wu Xing) into a formal, phase-sensitive framework for understanding systemic change. Interpreted in neutral analytical terms, the Five Phases - Emergence, Amplification, Stabilisation, Rationalisation, and Renewal - describe recurring functional states in complex systems. Positioned as a second-order model, this framework complements contemporary complexity economics and innovation theory by offering a structured way to observe interacting cycles, detect imbalances, and guide adaptive interventions in real-world systems, from artificial intelligence to global supply chains.

The aim is not to replace quantitative economics but to expand its conceptual architecture, providing scholars, policymakers, and practitioners with a practical tool to interpret and navigate systemic transformation in our rapidly evolving, AI-driven global economy.

2 Literature Review: Cyclic Thinking and Economic Transformation

2.1 Overview of Selected Theories and Observations

In recent years, many scholars have questioned whether traditional equilibrium and linear cycle models are sufficient to explain today's global economy, especially under conditions of rapid technological acceleration and systemic shocks.

The post-2020 economy is marked by overlapping structural change, innovation clusters, and nonlinear dynamics that challenge classical assumptions of stability and recurrence. Classical business cycle theory and product life cycle models remain widely used in economics and management; however, they are often based

on ideas of stability, repetition, or sequential development that may no longer capture modern dynamics.

For example, Vianna's review highlights how traditional equilibrium-based models struggle to explain persistent instability, endogenous dynamics, and complex interactions in real economies, pointing to the need for more integrated and dynamic approaches [7]. Similarly, Iveson, Hultman, and Davvetas argue that the standard product life cycle framework - based on historical sales patterns - has become less reliable in predicting real market behaviour and requires updating to reflect rapid innovation, digitalisation, and changing competitive structures [8].

Other research shows that technological change interacts with economic cycles in nonlinear ways, meaning that traditional sequential life-stage models may not adequately reflect real-world adoption and transformation patterns [9]. These models remain useful heuristics, but their linear and domain-specific structure limits their explanatory power in an AI-driven economy.

Gillman and Pagan note that researchers have long studied economic cycles and their drivers. They distinguish between oscillatory cycles and those identified by the NBER (National Bureau of Economic Research) which require analysing growth patterns to determine turning points in economic activity [10].

Joel Mokyr, Philippe Aghion, and Peter Howitt were awarded the 2025 Nobel Prize for their work on innovation-driven economic growth [11]. Aghion and Howitt's model of "creative destruction" explains how long-term growth arises from innovation replacing outdated technologies [12].

Yifu and Wang analyse the "dual circulation" strategy in China, which aims to balance domestic and international economic flows [13]. Ongoing research continues to evaluate its effectiveness [14, 15].

The periodic occurrence of boom, recession, depression, and recovery phases remains an observable feature of economic systems. Schweizer and Casiraghi argue that both endogenous and exogenous factors contribute to business cycles, highlighting the interaction between internal system dynamics and external shocks [16].

2.2 A Special Cognitive Approach

"Xiang thinking" (象思维), often translated as "image thinking", is a perceptually grounded and relational mode of cognition developed in classical Chinese philosophy [17, 18, 19]. It emphasises patterns, analogies, and dynamic interrelations rather than abstract categorisation. This approach offers a complementary perspective to conventional Western analytical methods by focusing on processes and transformations. When applied to the Five Phases Framework - Wood, Fire, Earth, Metal, and Water - it reframes them as evolving

stages of emergence, amplification, stabilisation, discipline, and renewal. Modern complexity economics aligns with this relational perspective by viewing economies as adaptive, networked systems shaped by feedback loops and emergent patterns.

Integrating Xiang thinking with the Five Phases Framework provides a conceptual bridge for interpreting systemic transitions in areas such as AI, global supply chains, and financial systems.

2.3 A Phase-Sensitive Framework

This paper therefore proposes a phase-sensitive framework. The goal is not to replace existing models but to extend them with a nonlinear perspective that better captures systemic transformation. The Five Phases Framework emphasises transformation, mutual generation, and constraint - concepts that are increasingly relevant to complex economic systems.

3 The Knowledge Background and the Five Phases Framework

3.1 Analytical and Relational Approaches to Systemic Change

Classical Western scientific development, strongly influenced by logic and mathematical formalisation, has traditionally analysed systems by breaking them into parts and identifying causal relationships under equilibrium conditions. This analytical orientation proved highly successful in physics, engineering, and neoclassical economic modeling. In parallel, classical Chinese thought developed a relational approach that emphasises interdependence and continuous transformation. Change is seen as the normal state of reality rather than a deviation from equilibrium [18]. Modern economic science increasingly combines these perspectives. While equilibrium models remain important, newer approaches emphasise complexity, adaptation, and systemic change [19]. The Five Phases Framework builds on this relational perspective, offering a structured model for analysing systemic transformation across disciplines.

3.2 The Five Phases Framework as a Dynamic Economic Model

3.2.1 The Original Names of the Five Phases

The traditional symbolic names are **Wood**, **Fire**, **Earth**, **Metal**, and **Water**. The philosophy of the five phases is one of the key constituent elements of Chinese culture [20]. Littlejohn's study analyzes the deep connections between the five phases [6]. Yang C.D. emphasises: "although it was proposed more than 2000 years ago, Wu Xing is still an unparalleled network operation protocol" [21]. In this paper, **Wood**, **Fire**, **Earth**, **Metal**, **Water** are not treated as metaphysical concepts but as analytical labels representing functional system states.

3.2.2 The relationship between the Five Phases and their Functional Interpretation

3.2.2.1 Each phase represents a distinct type of dynamic behaviour

"**Wood**" immediately suggests growth, expansion, and early development - Emergence.

"**Fire**" evokes rapid acceleration, diffusion, and network effects - Amplification.

"**Earth**" signals consolidation, coordination, and structure - Stabilisation.

"**Metal**" conveys discipline, correction, and optimization - Rationalisation.

"**Water**" represents liquidity, reinvestment, and preparation for the next cycle - Renewal.

Table 1. shows the economic interpretation of these phases.

Phase Chinese Character	Functional State	Description in today's economic world
Wood (木)	Emergence , innovation, capacity creation	Foundational research, R&D, early-stage investment
Fire (火)	Amplification , rapid expansion	Market adoption, scaling, diffusion, strong growth momentum, enthusiasm
Earth (土)	Stabilisation , institutionalisation, coordination	Regulation, standardization, infrastructure consolidation
Metal (金)	Rationalization , discipline, correction	Efficiency gains, restructuring, risk management
Water (水)	Consolidation, liquidity, Renewal	Savings, risk buffering, reinvestment potential

Table 1.
Five Phases (五行 Wu Xing) as a Dynamic Economic Model

3.2.2.2 Five Phase Framework as a Second-order Analytical Tool

The Five Phases can be used as a second-order analytical tool that extends traditional models by capturing dynamic interactions. **Mutual generation process** means: each phase enables the next: Wood → Fire → Earth → Metal → Water. **Mutual constraint process** means: excess in one phase generates corrective pressure from another [20]. Xie formalizes these two processes into modern analytical framework, bridging classical philosophy with quantitative modeling [22]. These relationships between the Five Phases reflect dynamic interdependence and systemic regulation, rather than static classification. The framework assumes continuous transformation, where stability is temporary.

3.2.2.3 Classical economic and product cycle models and the Five Phase Framework

Table 2. compares classical economic and product cycle models with the proposed Five Phase Framework. The *Equilibrium Model*, *Business Cycle Model*, and *Product Life Cycle (PLC)* columns summarize established approaches, highlighting core logic, temporal structure, domain, treatment of shocks, technological change, policy implications, and system interactions. References for these classical frameworks are: Blanchard, Cerutti, & Summers for the Equilibrium Model [23]; Vianna for the Business Cycle Model [7]; and Iveson, Hultman, & Davvetas for the PLC [8]. The Five Phase Framework column illustrates the proposed nonlinear, cross-domain, phase-sensitive perspective that captures structural transformations

and interactions beyond the limits of traditional linear and equilibrium-based models.

Comparative Overview

Dimension	Equilibrium Model *	Business Cycle Model **	Product Life Cycle (PLC) Model ***	Five Phase Framework
Care Logic	System gravitates toward stable equilibrium	Oscillation around a trend	Sequential market evolution	Recurring functional system states
Temporal Structure	Static or comparative-static	Cyclical (expansion-contraction)	Linear (introduction-decline)	Nonlinear, recursive, interacting
Primary Domain	General macroeconomic theory	Macroeconomic fluctuations	Industry / marketing dynamics	Cross-domain systemic transforation
Schock Treatment	Exogenous disturbance	Cyclical disturbance	Market-driven change	Endogenous phase transition
Technological Change	Often treated as external variable	Productivity schock	Innovation as a driver of growth phase	Structura driver reshaping phases
Policy Implication	Stabilise toward equilibrium	Countercyclical intervention	Strategic timing	Phase-sensitive diagnostic intervention
System Interaction	Limited emphasis on feedback	Moderate aggregate feedback	Market demand / supply focus	Multi-layer feedback and inter-phase coupling

Table 2.

Comparative Overview of Economic and Product Cycle Frameworks with the Five Phase Framework
The Five Phase Framework captures dynamic interactions across systems, rather than linear or equilibrium-based processes.

*References for theoretical frameworks: *Equilibrium Model: Blanchard, Cerutti & Summers [23]; **Business Cycle Model: Vianna [7]; ***Product Life Cycle (PLC): Iveson, Hultman & Davvetas [8].*

4 Five-Phase Diagnostic Application on an Existing Company

4.1 Example: Tencent Holdings Limited

Company's Chinese name: 腾讯控股有限公司, (*Pinyin*: Téngxùn Kòngǔ Yǒuxiàn Gōngsī). Tencent is a leading global technology and internet company headquartered in Shenzhen, Guangdong Province, China. Officially incorporated in 1998. Tencent operates as a holding company for a large portfolio of digital platforms and services across social media, gaming, cloud computing, financial technology, digital content, and artificial intelligence. The company is publicly

traded on the Hong Kong Stock Exchange (0700.HK) and has historically ranked among the largest technology firms worldwide by market capitalization and revenue. Tencent reported robust financial performance in recent periods, with total annual revenue exceeding RMB 660 billion in 2024 (about USD 90+ billion) and continued user base expansion across its platforms. Tencent's workforce exceeded 110'000 employees globally by late 2024, reflecting its scale as a major employer in the technology sector [24]. Its diversified business model includes value-added services, digital advertising, fintech and business offerings, and strategic investments in technology, media, and entertainment firms around the world [24, 25].

4.2 WeChat

WeChat (original name in Chinese: 微信 (Pinyin: Wēixìn)) is a multi-purpose mobile application developed by Tencent and launched in 2011. It integrates *social engagement*, *mobile financial services*, *e-commerce*, and a broad ecosystem of embedded services, all within one platform. By 2024, WeChat/Weixin had over 1.38 billion monthly active users, making it one of the largest digital platforms in the world in terms of scale and daily engagement [24, 25, 26, 27]. Table 3. analyzes the development of Tencent's WeChat ecosystem from the perspective of the Five Phase Framework.

A Five Phase Analysis of Tencent's WeChat Ecosystem (2012–2025)

Phase	Time Frame	Observed Facts	Interpretation
Emergence <i>"Wood"</i>	2012 - 2014	* WeChat expanded beyond messaging into social networking, payments (WeChat Pay), and basic services. * Tencent invested heavily in R&D and platform innovation; third-party mini apps integrated. * Foundational technologies and infrastructure established.	Foundational creation of technological capacity, strategic experimentation, and ecosystem building.
Amplification <i>"Fire"</i>	2015 - 2018	* Rapid user adoption in China and globally; growth in mobile payments, ride-hailing, and social commerce. * Tencent's ecosystem scaled rapidly with millions of users, businesses, and developers. * Media visibility increased; alongside strong market enthusiasm and high investment valuations.	Rapid scaling and diffusion of platform capabilities; network effects intensify growth.
Stabilization <i>"Earth"</i>	2019 - 2021	* Institutional structures emerged: governance rules for mini programs, data privacy protocols, and payment standards. * Coordination with financial regulators on compliance and anti-fraud measures. * Slowdown of hyper-growth, establishment of stable operational norms.	Institutionalization of standards, coordination of ecosystem rules, and consolidation of market logic.
Rationalization <i>"Metal"</i>	2021 - 2023	* Increased regulatory scrutiny in China (anti-monopoly, data security). * Internal optimization: downsizing non-core ventures, strengthening compliance, risk controls, and efficiency. * Strategic realignment toward core productivity tools and enterprise services.	Discipline, correction, restructuring; emphasis on risk management and systemic efficiency.
Consolidation & Renewal <i>"Water"</i>	2023 - 2025	* Strategic reinvestment into AI-enhanced services: smart assistants, enterprise AI workflows, extended API integration for sustainability and health services. * Diversification of revenue streams; repositioning toward AI-enabled productivity solutions. * Enhanced focus on generative AI features and cross-platform interoperability.	Savings, reinvestment, liquidity management, and emergence of next-generation innovation potential.

Table 3.

The Evolution of Tencent's WeChat Ecosystem (2012-2025)
looking through the Five Phases Framework theory

The Five Phase Framework highlights that rapid innovation and expansion (*Wood* and *Fire*) create structural pressures requiring stabilizing and corrective dynamics (*Earth* and *Metal*). The Consolidation and Renewal (*Water*) phase leads back to a new growth (*Wood*) phase, forming a continuous cycle. This qualitative perspective identifies imbalances, transition pressures, and coordination needs without relying on numerical models, demonstrating the framework's practical applicability in real-world, rapidly evolving systems.

Conclusion

Contemporary economic systems are increasingly understood as complex, adaptive networks where feedback loops, nonlinear dynamics, and structural transformations

drive recurrent patterns. The Five Phases Framework enriches this understanding by offering a phase-sensitive perspective on systemic evolution.

Each phase - Emergence (*Wood*), Amplification (*Fire*), Stabilisation (*Earth*), Rationalisation (*Metal*), and Renewal (*Water*) - corresponds to key processes in endogenous growth, innovation, and institutional development. Mutual generation and mutual constraint mechanisms help explain how early innovation sparks growth, how excess is corrected, and how systems renew themselves. See Table 4.

**Integrating the Five Phases Framework with Contemporary Economic Theory:
Mutual Generation, Feedback Loops, and Endogenous Growth**

<i>Five Phases</i>	Economic Theory Concept	Explanation
<i>Wood</i>	Emergence in complexity economics	Innovation triggers systemic change, creating new opportunities
<i>Fire</i>	Amplification and feedback loops	Rapid scaling intensifies feedback effects, leading to growth or instability
<i>Earth</i>	Institutionalisation and regulatory frameworks	Stabilization emerges from standardization and legal frameworks
<i>Metal</i>	Rationalisation and efficiency	Optimisation processes correct excesses and stabilise systems
<i>Water</i>	Consolidation and Renewal	Sustainability and reinvestment enable long-term economic resilience

Table 4.

**Integrating the Five Phases Framework with Contemporary Economic Theory:
Mutual Generation, Feedback Loops, and Endogenous Growth**

By integrating classical relational thinking with modern economic theory, the framework provides a practical diagnostic tool for scholars, policymakers, and business leaders. It allows anticipation of phase transitions, identification of systemic imbalances, and informed intervention in complex, interconnected economies.

Overall, the Five Phases Framework demonstrates that ancient wisdom can be translated into actionable insight, helping to organise, interpret, and guide systemic transformation in the contemporary global economy.

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