China

Population: 1.373 billion (2016 est.)
Size: 9,596,960 sq km (slightly smaller than US)
GDP per capita: $15,400 (PPP 2016)
Exchange rate: 1 USD = 6.9 CNY (Yuan Renminbi)

Chinese socialism
The first decade
- Mao Zedong proclaims PRC in 1949
- imitation of the Soviet model
  - nationalization of industry
    - investments into the heavy industry – capital-intensive
  - collectivization of land
    - land redistributed to peasants
    - creation of communes
- difficulties with central planning:
  - China is large
  - Warlordism
Chinese socialism
The Great Leap Forward (1958-62)
- a plan to rapidly transform the primarily agrarian economy dominated by peasants into a modern, industrial communist society
- human capital and investments poured into heavy industry (steel)
- an economic disaster

Chinese socialism
The Cultural Revolution (1966-70)
- Mao’s attempt to retake supreme leadership of the Communist party
- Mao thought that the only way that China (Asia) could be self-reliant is to completely reject the western influence
- lost generation of leadership as universities closed and students sent to countryside
- bureaucrats and planners stripped of authority and sent to the countryside for “__________”
- poor economic performance

The Reform
- Deng Xiaoping takes power in 1978
- initiated a ________ reform that is still in progress
- a combination of ________ and __________
- “__________ approach”
  - coexistence of a plan track and a market track
  - two phases:
    - 1978-1984:
      - reforms in the agricultural sector – liberalization
      - creation of township and enterprise village (TVE)
      - service sector slowly privatized
    - 1984: dual-track approach in industry
Dual-track approach
- transition from central planning to free markets necessarily creates winners and losers
- opening free markets while planned supply unchanged at ______ prices
- adjust planned prices ______ as planned supply quantity fixed or lowered
- meanwhile market supply is growing so fixed planned supply gets ______ as a proportion of total supply
- final elimination of planned prices when planned supply becomes almost ______

Agriculture
- communes abandoned
- household responsibility system (HRS)
  - improving incentives
  - each plot had a production quota at set prices
  - the rest sold in the market at whatever prices
  - a sharp increase in agricultural productivity
    - higher standard of living in rural area
    - portion of labor force could move into entrepreneurship
    - creation of TVEs

Industry
- moving away from the Soviet-style gross-value indicators to ______
- enterprises allowed to retain profits and reinvest
  - less focus on budget-financed projects
- 4 types of enterprises:
  - state-owned enterprises (SOEs)
  - corporatized state enterprises
  - township-village enterprises (TVEs)
  - joint (foreign) ventures
Township Village Enterprises (TVEs)

Characteristics

- face _____ budget constraints
- fall outside planning
- had to identify demand & supply and work on quality and product development
- not burdened by social expenditure
- more flexible with hiring/firing workers
- retained profits

Township Village Enterprises (TVEs)

Why TVEs?

- light industry ________ by the state sector
- large _________________ in rural areas
- growth incentives to develop local economy
- between 1980 and 1996, the number of TVEs increased from a few to 23.3 million and employing 135 million workers (20%)
- were able to absorb excess labor
- recently TVEs begin privatized: joint-stock companies, proprietorships and partnerships
- emerging problems for rural employment

State-owned Enterprises (SOEs)

- inefficient, unprofitable (SBC), corrupt
- why not close them?
- “important sectors”
- arbitrage/rent → source of income for bureaucracy
- contract responsibility system (CRS)
- dual track, just like in agriculture
- incentives to ↓ quota and ↑ inputs
- managers lacking the power to reward key personnel
Corporatized State Enterprises

- “retain large SOEs and release small ones”
- a transfer of state ownership from direct state supervision and management to state “shareholding” operated by “independent” managers →
- the idea is to operate these SOEs as corporations in industrialized market economies
- have not performed better than regular SOEs
- lack of clear ______________ and shareholders’ __________________________

Building institutions

- Property rights and the rule of law
  - neither is clearly defined
  - relational contracting
- Financial system
  - central bank: The People’s Bank of China (PBC)
  - commercial banks: the Big Four
  - reliance on banks → equity markets small
  - directed credit dictated by the plan
  - opened up to foreign banks in December 2006
  - high proportion of ______________________
  - exceptionally high savings rate

Foreign Trade and Investment

- world’s top recipient of foreign direct investment (FDI)
- 1990s: 40% of capital formation financed with FDI
- a large trade surplus vis-à-vis the rest of the world

![China's Trade](chart.png)
Special Economic Zones

- started in 1979
- “_____________” weak property rights and inefficient courts
- preferential tax treatment
- economic reasoning for SEZs
  1. absorbing unemployment
  2. economies of scale
  3. technological spillovers
  4. limit geographical activity

Coastal growth

<table>
<thead>
<tr>
<th>Special Economic Zones</th>
<th>Nation</th>
<th>Guangdong</th>
<th>Fujian</th>
<th>Zhejiang</th>
<th>Jiangsu</th>
<th>Shangdong</th>
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</thead>
<tbody>
<tr>
<td>Annual growth</td>
<td>9.3%</td>
<td>19.7%</td>
<td>17.3%</td>
<td>18.9%</td>
<td>16.4%</td>
<td>16.3%</td>
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<tr>
<td>SOE growth</td>
<td>10.1%</td>
<td>9.5%</td>
<td>9.1%</td>
<td>9.1%</td>
<td>9.2%</td>
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<tr>
<td>TVE growth</td>
<td>19.5%</td>
<td>19.6%</td>
<td>24%</td>
<td>17.8%</td>
<td>18.5%</td>
<td>18.5%</td>
</tr>
<tr>
<td>Foreign &amp; joint ventures</td>
<td>58.6%</td>
<td>50%</td>
<td>38.6%</td>
<td>42.3%</td>
<td>37.3%</td>
<td>37.3%</td>
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</tbody>
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Transition in China

- gradualist
- decentralization of decision-making
- the economy did not contract with the onset of transition
  - economy less reliant on directed trade
  - the agricultural sector did not depend on a complex set of markets and suppliers as in the SU
- econ. liberalization w/o political democratization